



MONTENEGRO
AUDIT AUTHORITY

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ANNUAL AUDIT ACTIVITY REPORT
OF
THE AUDIT AUTHORITY
FOR
ANNUAL ACTION PLAN OF MONTENEGRO FOR 2021 AND
ANNUAL ACTION PLAN OF MONTENEGRO FOR 2024

FOR THE PERIODS
FROM 01 JULY 2024 – 30 JUNE 2025
FROM 13 DECEMBER 2024 – 30 JUNE 2025
FROM 01 JANUARY 2025 - 31 DECEMBER 2025

Podgorica, February 2026

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LIST OF ABBREVIATIONS

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AB	Accounting Body
AMD	Annual Management Declaration
AWP	Annual Work Plan
CFCU	Directorate for Financing, Contracting and Implementation of EU Support Funds
DG ENEST	Directorate General for Enlargement and the Eastern Neighbourhood
DMS	Directorate for Management Structure
EC	European Commission
EU	European Union
EUD	Delegation of the European Union
FFPA	Financial Framework Partnership Agreement
IAU	Internal Audit Unit
IBFM	Intermediate Bodies for financial management
IBPM	Intermediate Bodies for policy management
ICF	Internal Control Framework
ICFR	Internal Control Framework Requirement
IPA	Instrument for Pre-Accession Assistance
IPA III	Instrument for Pre-Accession Assistance III perspective
LTEC	Long Term Employment Contract
MAFWM	Ministry of Agriculture, Forestry and Water Management
MCSS	Management, Control and Supervision System
MESDNRD	Ministry of Ecology, Sustainable Development and Northern Region Development
MESI	Ministry of Education, Science and Innovation
MF	Ministry of Finance
MoP	Manual of Procedures
MPW	Ministry of Public Works
NAO	National Authorising Officer
NAO SO	NAO Support Office
NIPAC	National IPA Coordinator
OG MNE	Official Gazette of Montenegro
OS	Operating Structure
OTSC	On-the-spot Check
Rulebook	Rulebook on internal organization and systematization
TEC	Temporary Employment Contract
WLA	Work Load Analysis

1. INTRODUCTION

1.1 Identification of the Audit Authority and other bodies that have been involved in preparation of 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 shall be 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 Financial Framework Partnership 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 III), (hereinafter FFPA) and in Commission Implementing Regulation (EU) 2021/2236 on the specific rules for implementing Regulation (EU) 2021/1529 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA III) and in Commission Delegated Regulation (EU) 2021/2128 supplementing Regulation (EU) 2021/1529 of the European Parliament and of the Council, as regards setting out certain specific objectives and thematic priorities for assistance under the Instrument for Pre-Accession Assistance (IPA III).

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 submits an Annual Audit Activity Report (AAAR) and Annual Audit Opinion (AAO) following the model set out in Annexes D and E of the FFPA.

This report has been prepared by the Audit Authority of Montenegro. Other bodies were not included in preparation of this report given that AA does not rely on work of other bodies in performing its functions.

1.2 Reference period (i.e. the financial year and the 12 months period from 1 July... (year) to 30 June... (year), except where otherwise provided for in a sectoral agreement or a financing agreement) and the scope of the audits (including the costs recognised declared to the Commission for the period concerned).

Pursuant to Article 3(i) of the FFPA on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA III), reference period for this Annual Audit Activity Report is financial year and covers the period from 01 January to 31 December 2025 and '12-month period' period from 01 July 2024 (of the previous financial year) to 30 June 2025 (of the current financial year) for AAP 2021 and period from 13 December 2024 to 30 June 2025 for AAP 2024.

In 2025 the Audit Authority carried out system audit for AAP 2021 and AAP 2024. In the period covered by this report, the AA was not in a position to perform audit of operations for listed programmes because in the period from 01 July 2024 (of the previous financial year) to 30 June 2025 (of the current financial year) and period from 13 December 2024 to 30 June 2025 there were no declared expenditures to EC for those Programmes. In the period January - February 2026 AA conducted also Audit of accounts for AAP 2021.

1.3 Identification of the programme/action(s)/sector(s) covered by the report and of its/their Managing Authority and Intermediate Bodies.

The report covers for the Annual Action Plan in favour of Montenegro for 2021 (hereinafter: AAP) IPA III (Global commitment number for year 2021: DEC.043 663.01) and for the Annual Action Plan in favour of Montenegro for 2024 (hereinafter: AAP) IPA III (Global commitment number: JAD.1361790).

Annual Action Plan in favour of Montenegro for 2021

Within AAP 2021, 2 actions shall be implemented by indirect management which covers following policy areas: Environment and Climate Action; and Competitiveness and Innovation.

Financing Agreement for the Annual Action Plan in favour of Montenegro for 2021 was signed on 15th December 2022. The total estimated cost of AAP 2021 is EUR 33,517,352.94 and the maximum Union contribution to this Programme is set at EUR 32,410,000.00. Actions of the Programme covered by Financing Agreement under indirect management with objectives of actions are given in the table 1.

Table 1- Actions of the Programme covered by Financing Agreement under indirect management - AAP 2021

Sector	Action (number and title)	IBFM	Intermediate body	EU contribution EUR	National co-financing EUR	Total
Environment and climate action	Action 2: Environment and climate action”	MPW	Ministry of Ecology Spatial Planning and Urbanism	6,275,000.00	1,107,353.00	7,382,353.00
Agricultural	Action 4: Agricultural	CFCU and MPW	Ministry of Agriculture, Forestry and Water Management	3,400,000.00	0,00	3,400,000.00
Total				9,675,000.00	1,107,353.00	10,782,353.00

By signing Addendum of the Financing Agreement for the Annual Action Plan in favour of Montenegro for 2021, on 12/12/2024, the budget for Action 4 "Support to the Agriculture Sector in Montenegro" is increased by at least 2,000,000.00 (national co-financing). Also, there were changes in regard to amounts available per IBFMs (reshuffling between IBFMs was made regarding EU part of available funds within same window/action).

Annual Action Plan in favour of Montenegro for 2024

Financing Agreement for Annual Action Plan in favour of Montenegro for 2024 was signed on December 13th 2024.

The total estimated cost of AAP 2024 is EUR 29,655,000 and maximum Union contribution to this Programme is set at EUR 26,600,000. Actions of the Programme covered by Financing Agreement **under indirect management** with objectives of actions are given in following table:

Table 2- Actions of the Programme covered by Financing Agreement under indirect management - AAP 2024

Sector	Action	IBFM	Intermediate body	EU contribution EUR	National co-financing EUR	Total
EU IF	Action 2: European Union Integrity Facility “(outcome 1)	CFCU	Ministry of finance	5,000,000.00 ¹	1,500,000.000	6,500,000.00
Environment and Climate change	Action 3: “EU support for environment and climate change in Montenegro	MPW	Ministry of ecology, sustainable development and northern region development	5,500,000	1,375,000.00	6,875,000.00
Employment and Social policy	Action 4: “EU support for employment and social policy in Montenegro- preparation for sectoral operational programme 2024-2027 (outcome 3)	CFCU	Ministry of education, science and innovation	1,000,000.00 ²	180,000.00	1,180,000.00
TOTAL				11,500,000.00	3,055,000.00	14,555,000.00

¹ Additional contribution of EU for this Action under direct management is 6,000,000 EUR

² Additional contribution of EU for this Action under direct management is 2,100,000 EUR

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

- 1) The National IPA Coordinator (NIPAC)
- 2) The National Authorizing Officer (NAO)
- 3) The Management structure:
 - The NAO support office
 - The Accounting Body
- 4) The Managing Authority:
 - The NIPAC Office
 - Intermediate Bodies for financial management: Central Finance and Contracting Unit (CFCU) and Ministry of Public Works (MPW)
 - Intermediate Bodies for policy management: (Ministry of Ecology, Sustainable Development and Northern Region Development (for AAP 2021 and AAP 2024) Ministry of Agriculture, Forestry and Water Management (for AAP 2021), Ministry of finance (for AAP 2024) and Ministry of Education, Science and Innovation (for AAP 2024).

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

The AAAR was prepared as a result of audit activities carried out during the 2025. During 2025 the AA carried out system audit for AAP 2021 and AAP 2024.

In the period from January – February 2026 AA performed audit of the annual financial reports for 2025, for APP 2021. With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the performed audit of management, control and supervision system, audit of accounts and the consistency of the management declaration with regard to performed audit work. Based on the available information and Final Audit Reports the Audit Authority prepares the Annual Activity Audit Report and the Annual Audit Opinions.

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

2. SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

AA regularly monitored and gathered information on changes in the Management, Control and Supervision System (MCSS).

In this AAAR we described significant personal and organizational changes occurred in the period from 1st January to 31st December 2025.

2.1 Details of any major changes in the management and control systems and confirmation of its compliance with Article 8 of Commission Implementing Regulation (EU) 2021/2236 based on the audit work carried out by the Audit Authority.

During 2025 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system.

Personal changes:

- *Ms Maida Gorčević, Minister of European Affairs, has been appointed as NIPAC. (Letter No: 08-908/25-9418 from 2nd April 2025).*
- *Ms Bojana Bošković was appointed as the Secretary of State, within Ministry of European Affairs. Change occurred by Government session held on 16th October 2025.*
- *Ms Majda Adžović was appointed as the Minister of Ministry of Public Works. The appointment was made by the Government session held on 14th April 2025.*
- *Mr Luka Mugoša appointed as Acting Director General of Directorate for implementation of the IPA projects, quality control and realization of the contracts, within of the Ministry of Public Works. Change occurred by Government session held on 10th July 2025.*
- *Ms Sanja Bečanović re-appointed as Acting Director General of Directorate for financing, contracting and implementation EU funds, within of the Ministry of Finance. Change occurred by Government session held on 26th July 2025 and on 19th December 2025.*
- *Ms Ivana Šučur has been appointed as SPO/Acting Director General of the Directorate for EU funds, European integration and International Cooperation, within Ministry of Labour, Employment and Social Dialogue. Change occurred by Government session held on 21st March 2025. The engagement was terminated on 12nd June 2025 and re-appointed during the Government session held on 12nd June 2025 and on 10th December 2025.*
- *Mr Trifun Savić has been appointed as SPO/Director General of Directorate for International Cooperation and EU funds, within Ministry of Ecology, Sustainable Development and Northern Region Development. Change occurred by Government session held on 3rd April 2025. The engagement was terminated on 2nd October 2025 and re-appointed during the Government session held on 30th October 2025.*
- *Ms Emina Mujević-Kara has been appointed as SPO/Acting Director General of the Directorate for European integration, EU Funds and International Cooperation, within Ministry of Social Welfare, Family Care and Demography. Change occurred by Government session held on 10th December 2025.*
- *Ms Dubravka Mihailović has been appointed as Deputy Auditor General, within Audit Authority of Montenegro. Change occurred by Government session held on 6th November 2025.*

Organizational changes:

- *The Parliament of Montenegro adopted amendments that included the establishment of the Ministry of Public Works (MPW) as a new department within the Government, on session held on 14th April 2025. The MPW fully assumed all responsibilities of the former Capital Projects Administration (CPA) and acts as the Contracting Authority/Implementation Agency for IPA II and as an Intermediate Body for financial management for IPA III.*

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

All the changes were assessed by Audit Authority and we can confirm that all changes follow applicable regulations.

The changes that occurred in MCSS in 2025 do 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. In particular, indicate any change to the sampling method used for the audit of operations (see paragraph 5 below).

Update Audit Strategy 2025–2027 for the Annual Action Plan in favour of Montenegro for 2021 and for the Annual Action Plan in favour of Montenegro for 2024 was prepared in April 2025. The Auditor General of Audit Authority approved it and sent it to the European Commission, with a copy to National Authorising Officer, on April 23th 2025.

Financing Agreement for Annual Action Plan in favour of Montenegro for 2024 was signed on December 13th 2024. Having in mind that Management and Control System established for AAP 2024 has been set up on the basis of AAP 2021, Audit Authority updated Audit Strategy 2025 – 2027 which covers both, Annual Country Action Plans in favour of Montenegro (AAP 2021 and AAP 2024).

3.2 The Audit Authority differentiates between the changes made 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. Only the changes compared to the previous version of the audit strategy are included

There were no changes in the audit strategy.

4. SYSTEMS AUDITS

4.1 Details of the authorities/bodies that have carried out systems audits, including the Audit Authority itself.

In accordance with the Update Audit Strategy 2025-2027 for the IPA III 2021-2027 for the Annual Action Plan in favour of Montenegro for 2021 and for the Annual Action Plan in favour of Montenegro for 2024 approved by Auditor General and submitted to EC on April 23th 2025, the AA of Montenegro conducted an audit of the Management, control and supervision system (hereinafter MCSS) established in the bodies of Managing and Operating structure:

- NIPAC office
- DMS (NAO SO/AB)
- Intermediate Bodies for financial management (CFCU and MPW)
- Intermediate Bodies for policy management (Ministry of Ecology, Sustainable Development and Northern Region Development; Ministry of Agriculture, Forestry and Water Management; Ministry of finance and Ministry of education, science and innovation).

4.2 Summary table of the audits carried out, with the indication of the authorities/bodies audited, the assessment of the key requirements for each authority/body, issues covered and a comparison to the audit planning. The summary includes the programme (reference/title), the authority/body that has carried out the system audit, the date of the audit, the scope of audit including scope limitations and the authorities/bodies audited. Horizontal thematic audits are also reported in this Section.

During our last audit engagement (System Audit in 2024 for AAP 2021) we audited the following key requirements: Control Environment and Risk Management, for each body.

In accordance with above mentioned, risk assessment, for audit testing in conducting System Audit, was not performed. The System Audit for all bodies (AAP 2021) has cover all key requirements, which were not audited in the previous System Audit. Regarding the AAP 2024 all key requirements for all bodies are covered.

According to the above mentioned, audit was performed in NIPAC Office, NAOSO, AB, CFCU (IBFM), MPW (IBFM), Ministry of Ecology, Sustainable Development and Northern Region Development (IBPM), Ministry of Agriculture, Forestry and Water Management (IBPM), Ministry of Finance (IBPM) and Ministry of Education, Science and Innovation (IBPM). Audit objective of the audit is to verify the effective and efficient functioning of the Management, Control and Supervision System. The key requirements which were under the scope of the audit are: Control Activities, Information and Communication, and Monitoring Activities with the fact that the Ministry of Finance and Ministry of Education, Science and Innovation will include key requirements: Control Environment and Risk management.

The Audit Authority shall ensure that each body is audited in respect to each control element at least once during the programming period as a whole. Each System Audit include the Follow-up of previous years' System Audits as well as the overall assessment of changes in the Management and Control System.

The key requirements which were under the scope of audit are as follows:

- NIPAC office: Control Activities, Information and Communication and Monitoring Activities.
- NAO/NAOSO: Control Activities, Information and Communication and Monitoring Activities.
- AB: Control Activities, Information and Communication and Monitoring Activities.
- CFCU(IBFM): Control Activities, Information and Communication and Monitoring Activities.
- MPW(IBFM): Control Activities, Information and Communication and Monitoring Activities.
- IBPM (Ministry of Ecology, Sustainable Development and Northern Region Development): Control Activities, Information and Communication and Monitoring Activities.
- IBPM (Ministry of Agriculture, Forestry and Water Management): Control Activities, Information and Communication and Monitoring Activities.
- IBPM (Ministry of finance): Control environment, Risk management, Control Activities, Information and Communication and Monitoring Activities.
- IBPM (Ministry of education, science and innovation): Control environment, Risk management, Control Activities, Information and Communication and Monitoring Activities.

The system audit encompassed the period January - December 2025.

The audit was performed in the period May - December 2025.

The following audit areas (ICFR, sub-criteria, processes) as well as specific audit/compliance objective per audit area, were covered during the system audit:

➤ ***NIPAC office:***

(III) Control Activities: 10.1; 10.2; 10.3; 12.1; 12.2; 12.3.

(IV) Information and Communication: 13.1; 14.1; 14.2; 15.1; 15.2.

(V) Monitoring Activities: 16.1; 16.2; 16.3; 17.1; 17.2.

➤ ***NAO/NAOSO:***

(III) Control Activities: 10.1; 10.2; 10.3; 12.1; 12.2; 12.3.

(IV) Information and Communication: 13.1; 14.1; 14.2; 15.1; 15.2.

(V) Monitoring Activities: 16.1; 16.2; 16.3; 17.1; 17.2.

➤ **AB:**

- (III) Control Activities: 10.1; 10.2; 10.3; 12.1; 12.2; 12.3.
- (IV) Information and Communication: 13.1; 14.1; 14.2; 15.1; 15.2.
- (V) Monitoring Activities: 16.1; 16.2; 16.3; 17.1; 17.2.

➤ **CFCU (IBFM):**

- (III) Control Activities: 10.1; 10.2; 10.3; 12.1; 12.2; 12.3.
- (IV) Information and Communication: 13.1; 14.1; 14.2; 15.1; 15.2.
- (V) Monitoring Activities: 16.1; 16.2; 17.1; 17.2.

➤ **MPW (IBFM):**

- (III) Control Activities: 10.1; 10.2; 10.3; 12.1; 12.2; 12.3.
- (IV) Information and Communication: 13.1; 14.1; 14.2; 15.1; 15.2.
- (V) Monitoring Activities: 16.1; 16.2; 17.1; 17.2.

➤ **Ministry of Ecology, Sustainable Development and Northern Region Development (IBPM):**

- (III) Control Activities: 10.1; 10.2; 10.3; 12.1; 12.2; 12.3.
- (IV) Information and Communication: 13.1; 14.1; 14.2; 15.1; 15.2.
- (V) Monitoring Activities: 16.1; 16.2; 16.3; 17.1; 17.2.

➤ **Ministry of Agriculture, Forestry and Water Management (IBPM):**

- (III) Control Activities: 10.1; 10.2; 10.3; 12.1; 12.2; 12.3.
- (IV) Information and Communication: 13.1; 14.1; 14.2; 15.1; 15.2.
- (V) Monitoring Activities: 16.1; 16.2; 16.3; 17.1; 17.2.

➤ **Ministry of Finance (IBPM):**

- (I) Control environment: 1.1; 1.2; 1.3; 2.1; 2.2; 2.3; 2.4; 3.1; 3.2; 3.3; 4.1; 4.2; 4.3; 4.4; 5.1; 5.2; 5.3.
- (II) Risk management: 6.1; 6.2; 6.3; 6.4; 6.8; 7.1; 7.2; 8.1.
- (III) Control Activities: 10.1; 10.2; 10.3; 12.1; 12.2; 12.3.
- (IV) Information and Communication: 13.1; 14.1; 14.2; 15.1; 15.2.
- (V) Monitoring Activities: 16.1; 16.2; 16.3; 17.1; 17.2.

➤ ***Ministry of Education, Science and Innovation (IBPM):***

- (I) Control environment: 1.1; 1.2; 1.3; 2.1; 2.2; 2.3; 2.4; 3.1; 3.2; 3.3; 4.1; 4.2; 4.3; 4.4; 5.1; 5.2; 5.3.
- (II) Risk management: 6.1; 6.2; 6.3; 6.4; 6.8; 7.1; 7.2; 8.1.
- (III) Control Activities: 10.1; 10.2; 10.3; 12.1; 12.2; 12.3.
- (IV) Information and Communication: 13.1; 14.1; 14.2; 15.1; 15.2.
- (V) Monitoring Activities: 16.1; 16.2; 16.3; 17.1; 17.2.

Table 3- System audit, summary of the carried out for 2025

Audit period	Programme (reference and title)	Audit Body	Audited Body(ies)	Date of the audit	Scope of the audit	Principal findings and conclusions	Problems of systemic character and measures taken	Estimated financial impact (if applicable)	State of follow-up (closed/or not)
01.01.2025 – 31.12.2025	AAP 2021 DEC.043 663.01 AAP 2024 JAD.1361790	Audit Authority of Montenegro	NIPAC office	May to December 2025	ICRF 5 – Monitoring Activities	Absence of SLV Risk analysis as basis for Annual OTSC plan ICRF 5 (16.3) For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Closed
01.01.2025 – 31.12.2025	AAP 2021 DEC.043 663.01 AAP 2024 JAD.1361790	Audit Authority of Montenegro	MPW	May to December 2025	ICRF 5 – Monitoring Activities	Deviation from established procedures in AMD preparation and verification ICRF 5 (16.1) For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Closed
01.01.2025 – 31.12.2025	AAP 2021 DEC.043 663.01 AAP 2024 JAD.1361790	Audit Authority of Montenegro	MESI	May to December 2025	ICRF 1 – Control environment	Lack of Key IPA Staff ICRF 1 (3.2) For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open
01.01.2025 – 31.12.2025	AAP 2021 DEC.043 663.01 AAP 2024 JAD.1361790	Audit Authority of Montenegro	MF	May to December 2025	ICRF 1 – Control environment	Insufficient developed Specific Objectives of the AWP ICRF 1 (5.1) For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Closed

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01.01.2025 – 31.12.2025	AAP 2021 DEC.043 663.01 AAP 2024 JAD.1361790	Audit Authority of Montenegro	MAFWM, MESDNRD, CFCU	May to December 2025	ICRF 4 – Information and Communication	Non-Compliance with the valid version of the Manual of Procedures ICRF 4 (13.1) For details please see further below the section 4.4 of this AAAR	n/a	n/a	Closed for MAFWM Open for MESDNRD and CFCU
01.01.2025 – 31.12.2025	AAP 2021 DEC.043 663.01 AAP 2024 JAD.1361790	Audit Authority of Montenegro	MAFWM	May to December 2025	ICRF 3 – Control Activities	Absence of Decision on appointment of project team and Decision on the appointment of the project steering committee ICRF 3 (10.3) For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open
01.01.2025 – 31.12.2025	AAP 2021 DEC.043 663.01 AAP 2024 JAD.1361790	Audit Authority of Montenegro	MESI, MF	May to December 2025	ICRF 5 – Monitoring Activities	Absence of a Completed Checklist for the for Three-years disbursement forecasts ICRF 5 (16.1) For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open
01.01.2025 – 31.12.2025	AAP 2021 DEC.043 663.01 AAP 2024 JAD.1361790	Audit Authority of Montenegro	CFCU	May to December 2025	ICRF 4 – Information and Communication	Gaps in coordination by IBFM in addressing IBPM's comments on the Three-year disbursement forecasts ICRF 4 (14.1) For details please see further below the section 4.4 of this AAAR.	n/a	n/a	Open

4.3 Description of the basis for the audits carried out, including a reference to the audit strategy applicable and more particularly to the risk assessment methodology and the results that led to establishing the audit plan for system audits. If the risk assessment has been updated, this should be described in section 3 above covering the changes in the audit strategy.

The risk assessment at the strategic audit planning stage considers the overall management and control system for the specific IPA programme, and enables selecting and prioritizing the riskiest authorities/ key requirements /processes /operations for audit testing.

Following the risk assessment performed, System Audit for AAP 2021, conducted in last year, was limited to the two key requirements for each audited IPA body- ICF 1 (Control environment) and ICF 2 (Risk management) - as these were assigned as medium-category risk score.

In accordance with above mentioned, and as outlined in Updated Audit Strategy 2025-2027, no risk assessment for audit testing was performed for this System Audit. This audit covers the remaining key requirements (ICF 3, ICF 4, ICF 5) that were not audited in the previous engagement.

With respect to the AAP 2024, the audit includes all key requirements across all bodies, which constitute the IPA management and control structure.

According to the above mentioned, audits were performed in **NIPAC office; DMS (NAO SO, AB); CFCU (IBFM); Ministry of Public Works (IBFM); Ministry of Ecology, Sustainable Development and Northern Region Development (IBPM), Ministry of Agriculture, Forestry and Water Management (IBPM), Ministry of Finance (IBPM) and Ministry of Education, Science and Innovation (IBPM)** with the audit objective to verify the effective and efficient functioning of the management, control and supervision system. The key requirements which were under the scope of audit are as follows:

Table 4- System Audit, the key requirements across all bodies

IPA Body/ Audit area	DMS	NIPAC office	CFCU	MPW	MAWFM	MESDNRD	MF	MESI
1.1	/	/	/	/	/	/	1	1
1.2	/	/	/	/	/	/	1	1
1.3	/	/	/	/	/	/	1	1
2.1	/	/	/	/	/	/	1	1
2.2	/	/	/	/	/	/	1	1
2.3	/	/	/	/	/	/	1	1
2.4	/	/	/	/	/	/	1	1
3.1	/	/	/	/	/	/	1	1
3.2	/	/	/	/	/	/	1	2
3.3	/	/	/	/	/	/	1	1
4.1	/	/	/	/	/	/	1	1

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4.2	/	/	/	/	/	/	1	1
4.3	/	/	/	/	/	/	1	1
4.4	/	/	/	/	/	/	1	1
5.1	/	/	/	/	/	/	1	1
5.2	/	/	/	/	/	/	1	1
5.3	/	/	/	/	/	/	1	1
6.1	/	/	/	/	/	/	1	1
6.2	/	/	/	/	/	/	1	1
6.3	/	/	/	/	/	/	1	1
6.4	/	/	/	/	/	/	1	1
6.5	/	/	/	/	/	/	/	/
6.6	/	/	/	/	/	/	/	/
6.7	/	/	/	/	/	/	/	/
6.8	/	/	/	/	/	/	1	1
7.1	/	/	/	/	/	/	1	1
7.2	/	/	/	/	/	/	1	1
8.1	/	/	/	/	/	/	1	1
8.2	/	/	/	/	/	/	/	/
9.1	/	/	/	/	/	/	/	/
10.1	1	1	1	1	1	1	1	1
10.2	1	1	1	1	1	1	1	1
10.3	1	1	1	1	2	1	1	1
10.4	/	/	/	/	/	/	/	/
11.1	/	/	/	/	/	/	/	/
11.2	/	/	/	/	/	/	/	/
12.1	1	1	1	1	1	1	1	1
12.2	1	1	1	1	1	1	1	1
12.3	1	1	1	1	1	1	1	1
13.1	1	1	1	1	1	2	1	1
14.1	1	1	2	1	1	1	1	1
14.2	1	1	1	1	1	1	1	1
15.1	1	1	1	1	1	1	1	1
15.2	1	1	1	1	1	1	1	1
16.1	1	1	1	1	1	1	2	2
16.2	1	1	1	1	1	1	1	1
16.3	1	1	/	/	1	1	1	1
17.1	1	1	1	1	1	1	1	1
17.2	1	1	1	1	1	1	1	1
TOTAL	1	1	2	1	2	1	2	2

4.4 Description of the main findings and conclusions drawn from systems audits, including audits targeted at specific thematic areas.

The outcome of the audit process is summarized in final system audit report that provides findings and recommendation which were identified during the audit process in bodies of Management structure and Operating structure. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 8 findings as follows:

➤ ***Finding No 1: Absence of SLV Risk analysis as basis for Annual OTSC plan***

Level of priority: Intermediate

ICF requirement: V (16.3) – Monitoring Activities

Body/-ies concerned by the finding: NIPAC office

According to the MoP, Risk assessment analyses serve as basis for the Annual OTSC plan (which represent the base for timely implementation of on-the-spot verifications by MA in order to ensure proper monitoring of the functioning of ICS) and guide the entire verification process at the level of IPA III bodies. Based on the risk analysis carried out and professional experience and judgement, officer describe the selection of the IB and the project/contract for which they shall execute OTSC verification.

Based on the review of documentation submitted by NIPAC office, we identified that the SLV risk analysis (Annex 2a) was not carried out prior to the preparation of the Annual OTC Plan for 2025.

Recommendations:

We recommend preparation of SLV Risk analysis for Annual OTSC plan for next year.

➤ ***Finding No 2: Deviation from established procedures in AMD preparation and verification***

Level of priority: Major

ICF requirement: V (16.1) – Monitoring Activities

Body/-ies concerned by the finding: MPW

According to the MoP – Annual Management Declaration chapter, it is clearly stated that:

“The process of issuing the AMD by the respective authorities consists of the following phases: Managing Authority and Intermediate bodies:

- *conducting a self-assessment of the functioning of the management and control system by completing the Self-Assessment Questionnaire and Self-Assessment Report. The Self-Assessment Questionnaire shall be signed by the Internal Control*

Coordinator, checked by the Head of the IPA Unit and approved by the Head of the IPA Body.”

Reviewing the submitted documentation in MPW we found that, Annex 6 - Annual Management Declaration Checklists for the Head of IPA Body for the Annual Action Plan in favour of Montenegro for 2024 and Annex 8 – Self-Assessment Questionnaire for the Annual Action Plan in favour of Montenegro for 2021 was prepared by the Internal Control Coordinator (ICC) who at the same time holds the position of Head of QAD. As required by Manual, these functions should be performed by separate persons. Also, the verification by the Head of the Quality Division was not carried out and the corresponding verification field in Annex was removed. As a result, the checklist and questionnaire were approved by Head of MPW, without the required verification by the responsible person, which does not comply with the Manual of procedures requirements.

Also, by reviewing Annex 6 –Annual Management Declaration Checklists for the Head of IPA Body for the Annual Action Plan in favour of Montenegro for 2021, we determined although the checklist was subsequently verified by the ICC, the preparation of the document was done by employee who is not designated as ICC which is not in line with the Manual of Procedures.

Recommendations:

We recommend that the preparation, verification and approval of the Annual Management Declaration Checklist for the Head of the IPA Body, as well as Annex 8 – Self-Assessment Questionnaire, be carried out in full alignment with the signed Job Descriptions and the procedures defined in the Manual of Procedures.

➤ ***Finding No 3: Lack of Key IPA Staff***

Level of priority: Intermediate

ICF requirement: I (3.2) – Control environment

Body/-ies concerned by the finding: MESI (IBPM)

During the System Audit, it was concluded that the position of the Head of IBPM unit for Education in Ministry of Education, Science and Innovation (IBPM) is vacant, which implies that management structures are not comprehensive.

The Rulebook on Internal Organization and Systematization prescribes the segregation of duties into two IBPM units (one for Education and one for Science and Innovation). The Manual of Procedures (IO) prescribes that the IBPM unit operates under the final responsibility of the Head of IBPM.

In accordance with recruitment procedure, the position of the Head of IBPM unit for Education was assigned on December 2024. The employee left the position on September 2025, and the position of the relevant post is currently vacant.

Recommendations:

We recommend once again initiating the recruitment procedure, to ensure that this post is filled.

➤ ***Finding No 4: Insufficient developed Specific Objectives of the AWP***

Level of priority: Intermediate

ICF requirement: I (5.1) – Control environment

Body/-ies concerned by the finding: MF (IBPM)

During the system audit in Ministry of Finance (IBPM) we conclude that specific objectives of the Annual Work Plan (AWP) are not sufficient developed. The AWP should contain the Specific objective (together with responsibilities and deadlines) which the IBPM has to manage in the relevant year.

The existing AWP contains the necessary, but not exhaustive specific objectives (Programming, Tendering, Implementation, Monitoring, Trainings, WLA, Risk Management) that the Body has to execute and monitor during the year.

The MoP represents the basis for defining the Specific objective of the AWP. Accordingly, the AWP should be further completed with the Specific objectives relating, for example, to continuous compliance with horizontal matters (AMD), Financial Management, Irregularity management, Publicity and Visibility, Communication and Reporting, Audit reports and Follow-up.

Recommendations:

It is recommended that the AWP be completed with MoP-based specific objectives covering all key functional areas.

➤ ***Finding No 5: Non-Compliance with the valid version of the Manual of Procedures***

Level of priority: Intermediate

ICF requirement: IV (13.1) – Information and Communication

Body/-ies concerned by the finding: MAFWM, MESDNRD, CFCU

MAFWM

Upon reviewing this procedure, we can confirm that the Annex for Quarterly Progress Monitoring Report (QPMR) and Annex QMPRQ Checklist were not completed using the template of valid version of MoP for IPA III (which supposed to be Annex 6 and Annex 7, but were instead filled out according to the MoP for IPA II (Annex 9 and Annex 10).

MESDNR

Upon examination of the submitted documentation, it was identified that the Quarterly progress monitoring report was not prepared in the appropriate using template prescribed by the valid Manual of Procedures (Annex 6).

CFCU

Upon examination of the submitted documentation, it was identified that the Register of invoices, Register of Request for funds, Register of Bank Guarantee were not prepared in the appropriate using template prescribed by the valid Manual of Procedures - Annex 3 Register invoices, RfFs, BGs.

Recommendations:

We recommend to align all relevant documents in accordance with the current valid version of the Manual of Procedures.

- ***Finding No 6: Absence of Decision on appointment of project team and Decision on the appointment of the project steering committee***

Level of priority: Intermediate

ICF requirement: III (10.3) – Control Activities

Body/-ies concerned by the finding: MAWFM (IBPM)

According to the MoP, Chapter IBPM Contract implementation and OTSV:

“At the latest at the beginning of implementation of each project/contract, project team should be established, consisting of the representatives of the IBPM, Beneficiary institution(s) and other relevant stakeholders, where applicable. The Head of Beneficiary institution shall make Decision on appointment of project team. “

“To ensure an effective monitoring of the implementation of a project, especially in the case of service contract, a project steering committee shall be established. Bodies of which representatives shall be members of the committee and the frequency of meetings are specifically defined in the contract. Project steering committees usually include representatives of the Beneficiary institution(s), IBPM, IBFM, MA, EUD and the contractor. Before the first project steering committee meeting, the Head of IBPM shall prepare formal Decision on appointment of the project steering committee, in accordance with the ToR.”

Based on review documentation in MAFWM we determined there is no Decision on the appointment of the project steering committee, nor the Decision on the appointment of the project team for contract Further strengthening of administrative capacities of the competent authority in the area of food safety, veterinary and phytosanitary affairs.

Recommendations:

We recommend that the IBPM ensures that, at the start of each project/contract, formal Decisions are issued on the appointment of the project team and the project steering committee in accordance with the MoP and the Terms of Reference. This will ensure proper governance, clear roles and responsibilities, and effective monitoring of project implementation.

- ***Finding No 7: Absence of a Completed Checklist for the for Three-years disbursement forecasts***

Level of priority: Intermediate

ICF requirement: V (16.1) – Monitoring Activities

Body/-ies concerned by the finding: MESI, MF (IBPM)

According to the MoP, the Annex to be used for activities related to fund planning under the Financial Management chapter is Annex 2 – IBPM Checklist for Three years disbursement forecasts.

MESI and MF

During our review, we identified that IBPMs, such as the Ministry of Finance and the Ministry of Education, Science and Innovation, did not prepare the Annex 2- Checklist for budget preparation as prescribed by the MoP.

Recommendations:

We recommend preparing Annex 2 – IBPM Checklist for the Three-year disbursement forecast in accordance with the currently valid version of the Manual of Procedures.

- ***Finding No 8: Gaps in coordination by IBFM in addressing IBPM's comments on the Three-year disbursement forecasts***

Level of priority: Intermediate

ICF requirement: IV (14.1) – Information and Communication

Body/-ies concerned by the finding: CFCU (IBFM)

According to the MoP, Chapters Financial management:

„The IBFM/CA is responsible:

- planning the relevant co-financing contributions (both EU and national) and submission of the plans (Three years disbursement forecasts) to the MA and IBPM, where designated, - revision of the Three years disbursement forecasts in accordance with the comments received from the MA/IBPM, if any.”

Additionally, according to MoP, applicable documents for: IBFM are Annex 1 – Three-year disbursements forecast and Annex 2 – Checklist for the budget preparation.

During our review, we identified that IBFM (CFCU) did not amend the 3YDF in accordance with the comments submitted by the IBPM (Ministry of Finance), as IBPM did not agree with the extension of deadlines for contracting projects under its responsibility in the Budget plan. It may lead to the adoption of financial decisions without appropriate verification and validation by the competent authorities.

In addition, the CFCU completed the Checklist without indicating that IBPM did not agree.

Recommendations:

The IBFM (CFCU) should ensure full compliance with the MoP, Chapter financial management, by revising the Three-Year disbursement forecasts in line with IBPM (Ministry of Finance) comments. This will strengthen coordination, ensure proper validation of financial data, and improve the accuracy and reliability of budget planning.

4.5 Indications as to whether any problems identified were considered to be of a systemic character, details of the measures taken, including a quantification of the irregular expenditure and any related financial adjustments/corrections made.

Not applicable.

4.6 Information on the follow up of audit recommendations from systems audits from previous years.

Not applicable.

4.7 Description (where applicable) of specific deficiencies related to the management of financial instruments, detected during systems audits and of the follow-up given by the IPA III beneficiary to remedy these shortcomings.

Not applicable.

4.8 Level of assurance obtained following the systems audits (low/average/high) and justification.

Considering the assessment of the management, control and supervision systems established for IPA III AAP 2021 and AAP 2024 we have reasonable grounds to state that the MCSS functions properly and in accordance with the requirements of the FFPA. Our assessment of the MCSS for this Programmes **is works, but some improvement(s) are needed**. Therefore, the level of assurance obtained from the system is average. Based on the individual score for each audited system body, an overall conclusion on the MCSS of the Programmes is made.

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

Table 5- System audit - Overall conclusion for MCSS

IPA body	Works well. No or only minor improvements are needed	Works, but some improvements are needed	Works partially; substantial improvements are needed	Essentially does not work
<i>NIPAC office</i>	X			
<i>DMS (NAO SO/AB)</i>	X			
<i>CFCU</i>		X		
<i>MPW</i>	X			
<i>MESDNRD</i>	X			
<i>MAFWM</i>		X		
<i>MF</i>		X		
<i>MESI</i>		X		

During each individual system audit the follow-up on recommendations from previous audits is regularly performed, and it is integral part of each individual system audit report.

During December 2025 the AA performed follow-up of the findings and recommendations that remained opened from the previous audit. Results of performed follow-up are that 3 out of 5 findings are closed, and given as follows:

Table 6- Follow-up for year 2025

No	Finding	Recommendation	Level of priority/ Body/-ies concerned by the finding/	Status as at January ³	Priority level/ New deadline for implementation
1. SYSTEM AUDITS					
1.	<p>Missing key IPA staff</p> <p>(Details: See section 4. of Final System Audit Report from 30th January 2026)</p> <p>During our audit engagement, we determinate that two key IPA actors are missing:</p> <p>NIPAC Office</p> <p>NIPAC, who has general coordination role and overall responsibility for programming of the assistance by IPA III beneficiary, left the position in July, 2024 and it has remained vacant ever since.</p> <p>IBPM (MESDNRD)</p> <p>Additionally, the position of Head of IBPM, responsible for providing support to the MA in programming and monitoring actions, as well as assisting the IBFMs in the technical implementation of actions at the contract level is also vacant from September 2024. Substitution plan is in force, but this solution is not considered as permanent.</p>	<p>Considering the overall responsibilities of NIPAC and IBPM within the MCSS, we recommend filling their vacancies as soon as possible.</p>	<p>Major /</p> <p>NIPAC Office, Ministry of Ecology, Sustainable Development and Northern Region Development (MESDNRD)</p>	<p>We consider this finding closed.</p>	
2.	<p>Lack of staff</p> <p>(Details: See section 4. of Final System Audit Report from 28th January 2026)</p> <p>While conducting the audit engagement, based on enclosed documentation and conducted interviews, we determined that there is an insufficient number of employees in all audited IPA bodies. More details on insufficiency of staffs, for each audited IPA body are provided below:</p> <p>DMS (NAOSO/AB)</p> <p>The number of staff isn't in compliance with envisaged number provided in the valid version of Rulebook on Internal organization and systematization. In Rulebook on internal organization and systematization envisaged number of staff is 17. According to WLA for 2024 number of envisaged staff is 18.</p>	<p>All IPA bodies</p> <p>In order to achieve all the set objectives and perform tasks the timely and efficient manner, we recommend fulfilling the vacancy positions in all IPA bodies, as foreseen in the Rulebook of internal organization and systematization and reflecte</p> <p>in the WLA. +MAFWM(IBPM)</p> <p>We recommend aligning the</p>	<p>Intermediate /</p> <p>All IPA bodies</p>	<p>We will continue monitor implementation of the recommendation.</p> <p>The finding remains open.</p>	<p>Intermediate /</p> <p>All IPA bodies</p> <p><i>New deadline for implementation:</i></p> <p>6 months</p>

³ Status in accordance with auditor's conclusion.

<p>Current number of staff in DMS is 14. According to the Recruitment plan required number of employees that need to be recruited for the year 2024 was 4 (3 positions of Financial manager and 1 for System supervision officer). DMS has taken certain measures to fill the vacant posts:</p> <ul style="list-style-type: none"> • One employee is hired on position of Financial manager (TEC) covering position of Accountant (due to the vacant position caused by parental leave of employee with LEC) • For position of the other Financial Manager a public announcement was published in October 2024. The advertisement for the mentioned position has been completed, and the process of preparing the decision is underway. Specifically, the Decision on Selection has been forwarded to the Human Resources Management Authority, and once it becomes final, the documentation will be sent back to Ministry of Finance • Recruitment procedures for two other vacant positions (Financial manager in Division of National fund and accounting body and System supervision officer in Division of NAOSO as outlined in Recruitment monitoring plan 2024, have not started yet. <p>According to the above-mentioned number of staff remains insufficient according to the WLA and Recruitment plan for 2024. Also 5 out of the 14 current employees are inactive (parental and maternity leave). As a result, it is difficult to achieve all the set objectives and perform tasks timely and efficient manner.</p> <p>NIPAC office In Rulebook on internal organization and systematization envisaged number of staff is 23. Currently, there are 14 employees, and according to the WLA, an additional 9 staff are needed. According to the Recruitment plan for 2024, three employees were planned to be recruited. During our audit engagement we are informed that one position (Monitoring Officer) was filled in June 2024.</p> <p>Still two position are vacant.</p> <p>CFCU (IBFM) Out of 40 positions available in valid version of the Rulebook on Internal organization and systematization, currently 30 positions are filled. Namely, according to the WLA, 10 more employees need to be recruited. The vacancy announcements for planned recruitment were not issued, as foreseen in Recruitment plan 2024. Only one advertisement was published for that position of Accountant in Accounting division. However, this position does not occupy a new vacancy, instead, it involves an existing employee transitioning from a TEC to an LEC (signed Decision on December,2024).To ensure the timely and effective implementation of IBFM activities, it is essential to fill the vacant position as soon as possible, in line with the requirements outlined in the Rulebook on internal organisation and systematisation.</p>	<p>Rulebook on Internal Organization and Systematization with the needed number of staff reflected in the WLA. Subsequently, the procedure for filling the additional vacant positions specified in the Recruitment Plan should be initiated to ensure the successful completion of the planned work.</p>			
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	<p>MPW (IBFM) The number of staff is not in compliance with the envisaged number provided in the Rulebook on internal organization and systematization. Namely, according to the WLA and the Rulebook on internal organization and systematization, the envisaged number of staff is 20. The current number of staff is 16. Vacancy announcements for the planned recruitment were not published as foreseen in the Recruitment Plan for 2024. According to Recruitment Plan Monitoring, it is explained that the Rulebook on internal organization and systematization of workplaces of the CPA is in the process of final approval, and after its approval, it is planned to initiate the recruitment processes. It is important to highlight that a key role remains unfilled. Specifically, the position of Head of the sector for the realization of IPA projects has been vacant since November 2023. Nevertheless, until the vacancy is filled the number of staffs remains insufficient and it is hard to reach all the objectives which have been set.</p> <p>MESDNRD(IBPM) According to the WLA for 2024 and old version Rulebook on internal organization and systematization adopted on December 2023, envisaged number of staff is 10. Current number of staff is 8. According to the Recruitment plan for 2024 two positions were needed to be filled in order to satisfy the needs for workforce forecasted for period 2024. Both position (Head of IBPM and Programming manager) were filled according to plan in February 2024. However, in September 2024, the Head of IBPM left the position, which remains vacant to this day. Additionally, in December 2024, an internal transfer within ministry filled one more Programming Manager position through a Decision on Employee Reassignment, according to the new version of Rulebook adopted on Government session, on November,22 2024.</p> <p>MAFWM(IBPM) In the valid version of Rulebook on internal organization and systematization envisaged number of staff working on IPA tasks is 4 (Head of unit, 1 programming manager and 2 implementation managers). All four positions are filled, including the previously vacant Implementing Manager position, which was filled in April 2024 as per the Recruitment Plan for 2024. Even though the above-mentioned position of Implementing Manager has been filled, the need for 2 more additional employees is outlined in the WLA and Recruitment plan for 2024. However, the recruitment procedure for two other vacant positions cannot begin, as the current Rulebook does not provide sufficient working posts.</p>				
3.	<p><i>Sensitivity posts not in place</i> (Details: See section 4. of Final System Audit Report from 30th January 2026)</p>	<p>We recommend adhering to the four-eyes principle and the segregation of duties as prescribed in the MoP in order</p>	<p><i>Intermediate / MWP</i></p>	<p>According to the evidence delivered during our audit (JD) we consider this finding</p>	

	<p>MPW</p> <p>By reviewing the Job descriptions and specific tasks, we can determine that the particular task for the Internal Control Coordinator (ICC) is not adequately assigned. The ICC is simultaneously holding the position of Acting Head of Quality assurance division (QAD) too.</p> <p>The Job Description clearly states that the Head of QAD is responsible for verifying any document prepared by subordinated staff before it is submitted to the Head of IBFM. In this case, Annex 4(Analysis of sensitivity posts of IBFM) from MoP Chapter Internal organisation was both prepared and verified by the Head of QAD.</p>	<p>to ensure that each manager oversees the internal control system within their entity.</p>		<p>closed.</p>	
4.	<p><i>No appointment of the Irregularity officer</i></p> <p>(Details: See section 4. of Final System Audit Report from 30th January 2026)</p> <p>According to the MoP v1 IPA III, the Irregularity Officer is appointed by the Decision on appointment of IO, issued by a respective Head of IPA Body. The Decision on appointment of the IO shall be sent to the AFCOS Office (copied to NAO). During our audit engagement, we determined that there was no official Decision on the appointment of an Irregularity Officer signed by the Head of IPA body in CFCU for IPA III.</p>	<p>We recommend appointment of the Irregularity officer as soon as possible.</p>	<p><i>Intermediate / CFCU</i></p>	<p>This process is completed and Irregularity Officer at the level of the CFCU was appointed on 16th January 2024.</p> <p>The decision was adopted on January 16, 2025 not in 2024. However, considering that an Irregularity Officer is currently in place, we consider the finding to be closed, with a note that due attention should be paid in the future to such “technical” errors.</p>	
5.	<p><i>The Mop (Chapter Irregularity Management) is not in line with Annex H, Clause 2(1) of FFPA</i></p> <p>(Details: See section 4. of Final System Audit Report from 30th January 2026)</p> <p>Two exceptions regarding the reporting irregularities are missing:</p> <ol style="list-style-type: none"> irregularities for an amount lower than EUR 300 in EU contribution do not have to be reported; irregularities that are detected and corrected by the IPA III beneficiary before inclusion in a payment application submitted to the Commission do not have to be reported. <p>The Urgent Reporting requirement in the MoP (VI.4) mandates immediate reporting of irregularities to OLAF and if necessary, to respective member</p>	<p>We recommend alignment of MoP with FFPA (Annex H).</p>	<p><i>Minor / All IPA bodies</i></p>	<p>We will monitor implementation of the recommendation in future period. Finding remains open.</p>	<p><i>Minor / All IPA bodies</i></p> <p><i>New deadline for implementation:</i></p> <p><i>6 months</i></p>

	<p>states or other IPA III Beneficiary Countries, when potential repercussions extend beyond Montenegro. Also, there is Urgent reporting described in point 3 of Appendix 6: Tabular overview of Irregularity reporting procedures through IMS.</p> <p>For IPA III, Annex H to the FFPA does not refer to any kind of urgent cases. Having in mind Clause 1, point 1 of the Annex H of FFPA in which it is stated "The IPA III beneficiary shall report any suspected fraud and other irregularities including fraud, which have been the subject of a primary administrative or judicial finding without delay to the Commission and keep the latter informed of the progress of administrative and legal proceedings using, when required, the dedicated Irregularity Management System (IMS)", we consider that part of „Urgent reporting“ not applicable.</p>				
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Table 7- Summary findings per Reports (Follow-up)

Period	Findings	Closed findings	Open Findings
<i>Final System Audit Reports</i>			
Final Report for 2024	5	3	2

5. AUDITS OF OPERATIONS

5.1 Identification of the authorities/bodies that carried out the audits of operations, including the Audit Authority.

Not applicable.

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

Not applicable.

5.3 Indication of the sampling parameters and other information for statistical or non-statistical sampling procedures, the underlying calculations for sample selection (in a format permitting an understanding of the basic steps taken, in accordance with the specific sampling method used) and explanation of the professional judgement applied. The information should include: materiality level, confidence level, sampling unit, expected error rate, sampling interval, standard deviation, population value, population size, sample size and information on stratification.

Not applicable.

5.4 Reconciliation between the costs recognised declared to the Commission for the 12 months period and the population from which the random sample was drawn. Reconciling items include negative items where financial adjustments/corrections have been made, as well as differences between amounts declared in euro and amounts in IPA III beneficiary currency, where relevant.

Not applicable.

5.5 Where there are negative items, confirmation that they have been treated as a separate population. Analysis of the principal results of the audits of these units, namely focusing on verifying whether the amounts correspond to the decisions to apply financial adjustments/corrections (taken by the IPA III beneficiary or by the Commission) and reconcile with the amounts included in the accounts as withdrawn and recovered / to be recovered.

Not applicable.

5.6 Where a non-statistical sampling method is used, specify the reasons for using the method, the percentage of sampling units/costs recognised covered by audits, the steps taken to ensure randomness of the sample bearing in mind that the sample has to be representative. In addition, define the steps taken to ensure a sufficient size of the sample enabling the Audit Authority to draw up a valid audit opinion. A total (projected) error rate is also calculated where non-statistical sampling method has been used.

Not applicable.

5.7 Summary table (see Section 9), broken down where applicable by programme, indicating the costs recognised and payments made declared to the Commission, the costs recognised audited and the errors identified. Information relating to the random sample is distinguished from that related to other samples if applicable (e.g. risk-based complementary samples).

Not applicable.

5.8 Analysis of the main findings of the audits of operations, describing:

- a) the number of sampling units audited, the respective amount;
- b) the amount and type of error by sampling unit;
- c) total errors;
- d) the nature of the errors found;
- e) root causes, corrective measures proposed, including those intending to improve the management and control system and the impact on the audit opinion.

Not applicable.

5.9 Details of the total error rate and residual error rate. Indication of the upper limit of the error rate (where applicable). Indication of the stratum total and residual error rates, corresponding deficiencies, irregular amounts and the impact on the audit opinion. The underlying calculations for total error rate and residual error rate, in a format permitting an understanding of the basic steps taken, in accordance with the specific sampling method used.

Not applicable.

5.10 Comparison of the total error rate and the residual error rate with the materiality level of 2%, in order to ascertain if the population is materially misstated and the impact on the audit opinion.

Not applicable.

5.11 Details of any financial adjustments/corrections relating to the 12 months period implemented before submitting the annual financial reports or statements/annual accounts to the Commission, as a consequence of the audits of operations, including flat rate or extrapolated adjustments/corrections.

Not applicable.

5.12 Details of whether any problems identified were considered to be systemic in nature, and the measures taken, including a quantification of the irregular costs recognised and any related financial adjustments/corrections.

Not applicable.

5.13 Information on the follow-up of audits of operations carried out in previous years, in particular on serious deficiencies of systemic nature. Revision of previously reported residual error rates, as a result of all subsequent corrective actions.

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

In accordance with the Audit Strategy for the IPA III 2021-2027 for the Annual Action Plan in favour of Montenegro for 2021 and for the Annual Action Plan in favour of Montenegro for 2024 submitted to European Commission - DG ENEST on November 27th 2025 the Audit Authority of Montenegro carried out an audit of completeness, accuracy and veracity of the annual financial report or statement (audit of accounts) for AAP 2021 for the reference financial year 2025, i.e. the accounting year from 1st January to 31st December 2025 (in 2025 there were no transactions for AAP 2024), issued by NAO on 15th February 2026 (Final Report on Audit of Accounts).

6.2 Description of audit approach used to verify that the annual financial reports or statements/annual accounts are complete, accurate and true. This shall include a reference to the audit work carried out in the context of systems audits, audits of operations and additional verifications carried out on the annual financial reports or statements/annual accounts.

In the context of the Audit of Accounts, and for the purposes of the Audit Opinion, in order to reach a conclusion on the completeness, accuracy and veracity of the annual financial report or statement, the Audit Authority verified whether all accounting information presented in the Annual financial report or statement/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 verified that all elements required by models stipulated in Annex III of the Financing Agreements concerning the AAP 2021, i.e., are correctly included in the accounts and correspond to the supporting accounting records maintained by bodies in the AB and IBFMs/ Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and Ministry of public works (MPW). In line with Article 61(2) of the Financial Framework Partnership 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 III), NAO submitted Annual Financial Reports for 2025 to EC on 15th February 2026. This Audit of Accounts covered Annual Financial Report for 2025 for the Annual Action Plan in favour of Montenegro for 2021 (in 2025 there were no transactions for AAP 2024). The summarized data regarding the total amounts contracted, recommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which are submitted in the previously mentioned AFR for 2025, are presented in the table below:

Financial/Accounting year: 2025
IPA III Annual Action Plan 2021

Table 8- Summarized amounts data - AAP 2021

Programme	Financing Agreement contract number	Local Contract Activities															
		Total Amount Contracted			Amount Decommited on closure	Total Amount Disbursed			Total Costs Recognised			Total Open Pre-financing			Recovery context		Bank Balances (EU contribution)
		EU contribution	National contribution	Other sources	Total	EU contribution	National contribution	Other sources	EU contribution	National contribution	Other sources	EU contribution	National contribution	Other sources	Errors/ Irregularities /Fraud	No context	Total
AAP 21	AAP2021 FA.SCR.DE C.043663.01	7,629,794.53	1,433,967.82	0.00	0,00	1,099,049.90	160,471.65	0.00	326,280.90	41,071.65	0.00	772,769.00	119,400.00	0.00	0,00	0.00	4,193,450.78

The Audit Authority, on the basis of the Annual Financial Report as well as all required documentation, provided to it by the AB and IBFMs / CFCU and MPW verified that:

- 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 III of the Financing Agreements) correspond to the amounts entered in the accounting systems of AB and IBFMs;
- 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 Accounting Body (AB);
- Reconciliation of the accounting records and cash flow statements of the AB and IBFMs.

6.3 Conclusions drawn from the audits in relation to the completeness, accuracy and veracity of the annual financial reports or statements/annual accounts, including an indication on the financial adjustments/corrections made and reflected in the annual financial reports or statements/annual accounts as a follow-up of these conclusions.

To achieve the overall objective, the Audit Authority take into account the results of:

- The System Audit for the AAP 2021, reference year 2025, No 01-908/26-48/2 on 30th January 2026.
- During ‘12-month period’, period from 1st July 2024 (of the previous financial year) to 30th June 2025 (of the current financial year), NAO did not submit a Request for funds, including a “Declaration of expenditure”, and therefore AA was unable to perform Audit of Operations.

The above-mentioned performed audit did not result in any financial corrections for the reference period and did not influence the correctness of the (Draft) Annual Financial Reports for 2025.

For the purpose of the Audit of Accounts, for the referent year, AA has carried out tests to check whether the transactions, included in financial reports/accounts corresponds with the amounts specified in the verified documents, collected from AB (NFD) and IBFMs (MPW and CFCU).

Although two transactions were subject to audit through the System audit for reference year 2025, due to the small population, we decided to include all transaction as the population.

For programme AAP 2021, the population consists of four (4) payments, comprising two (2) Pre-financing payments and two (2) Interim payments. The Implementing Body for financial

management (IBFM) for three (3) transactions is MPW, while for one (1) transaction it is the CFCU.

Due to the small and limited number of sampling units in the reference period, a 100% sampling method was applied, covering the entire population.

Selected transactions are given in the table below:

Table 9- Audit of Accounts, sampling - AAP 2021

Name of Contract	IBFM	Local contract reference	Amount authorised for transfer by AB	Transfer date on IBFMs
Support to the Establishment of the EIONET for Monitoring and Reporting System	MPW	CPA/MNE/IPAIII/CAP21/SER/01-908/25-982/1	238,000.00	02/07/2025
Support to the Establishment of the Natura 2000 Network for Montenegro	MPW	CPA/MNE/IPAIII/CAP21/SER/01-908/24-2072/1	232,739.35	04/09/2025
Preparation of project documentation and supervision services for construction of veterinary and phytosanitary control facilities	MPW	CPA/MNE/IPAIII/CAP21/SER/01-908/24-5984/1	10,220.00	01/08/2025
Further Strengthening of Administrative Capacities of the Competent Authority in the area of FSVP	CFCU	CFCU/MNE/279	93,541.55	04/12/2025

The conclusion of the audit is based on the analysis of the procedure in place, information and documents collected and the tests performed in the course of the audit by applying the checklist for the audit areas.

Based on the audit work performed, we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared and submitted to the Commission, in the accounts presented in the (Draft) Annual Financial Reports or Statements/Annual Accounts for the IPA III, for accounting year 2025.

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

Not applicable.

7. OTHER INFORMATION

7.1 Audit Authority's assessment of the cases of suspicions of fraud detected in the context of their audits (and of the cases reported by other national or Union bodies and related to operations audited by the Audit Authority), together with the measures taken. Information on number of cases, gravity, and the amounts affected, if known.

Not applicable.

7.2 Subsequent events occurred after the end of the 12 months period and before the transmission of the annual audit activity report to the Commission and considered when establishing the level of assurance and opinion by the Audit Authority.

Not applicable.

7.3 Any other information that the Audit Authority considers relevant and important to communicate to the Commission, in particular to justify the audit opinion.

Not applicable.

8. OVERALL LEVEL OF ASSURANCE

8.1 Indication of the overall level of assurance on the proper functioning of the management and control system, and an explanation on how the level was obtained from the combination of the results of the systems audits and audits of operations. Where relevant, the Audit Authority shall take also account of the results of other national or Union audit work carried out.

During 2025 the AA carried out System Audit for the AAP 2021 and AAP 2024, which was carried out for reference year 2025 (report No 01-908/26-48/2 on 30th January 2026).

During '12-month period', period from 1st July 2024 (of the previous financial year) to 30th June 2025 (of the current financial year), NAO did not submit a request for funds including a "Declaration of expenditure", and therefore AA was unable to perform Audit of Operations.

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

However, the assurance on the proper functioning of the management and control system is based on the results of the system audits (system assessment – please see section 4 above).

Considering the assessment of the management, control and supervision systems established for IPA III Annual Action Plan in favour of Montenegro for 2021 and Annual Action Plan in favour of Montenegro for 2024 we have reasonable grounds to state that the MCSS functions properly and in accordance with the requirements of the FFPA. Our assessment of the MCSS for this Programmes is works, but some improvement(s) are needed. Therefore, the level of assurance obtained from the system is average. Based on the individual score for each audited system body, an overall conclusion on the MCSS of the Programmes is made.

Therefore, 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. Based on the audit work performed we confirm completeness, accuracy and veracity of the amounts declared in the accounts submitted to the European Commission for the accounting year 2025 for the AAP 2021, therefore it is appropriate to issue an unqualified opinion.

As for Annual Action Plan in favour of Montenegro for 2024 the audit scope was limited by the following factors:

- No expenditure was declared to the European Commission in the ‘12-month period’, period from 13th December 2024 (of the previous financial year) to 30th June 2025;
- No audit of sample of transaction was performed regarding the financial year;
- No financial transactions were made during 2025 and annual financial reports or statements and the underlying accounts were not submitted for the financial year 2025.

Because of the significance of the matter described in the scope limitation paragraph above, the AA does not have all necessary elements to express overall assurance on the reliability of the annual financial reports or statements/annual accounts for 2025.

8.2 Assessment of any mitigating actions not linked to financial adjustments/corrections that were implemented, financial adjustments/corrections implemented and an assessment of the need for any additional corrective measures, both from the perspective of improvements of the management and control systems and of the impact on the Union budget.

Not applicable.

9. TABLE FOR DECLARED COSTS RECOGNISED, PAYMENTS MADE AND AUDITS OF OPERATIONS

Not applicable.

Table 10 – Audits of Operations, summary amounts data - AAP 2021 and AAP 2024

	A	B	C		D	E	F	G	H	I	J	K	L	M
Programme (reference/title)	Payments made declared to the Commission for the 12 months period	Costs recognized declared to the Commission for the 12 months period	Costs recognised in reference to the 12 months period audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount of irregular costs recognised in random sample	Total error rate	Adjustmen ts implemen ted as a result of the total error rate	Residual total error rate	Other costs recognised audited	Amount of irregular costs recognised in other costs recognised audited	Total costs recognised declared to the Commission cumulatively	Total costs recognised audited cumulatively
			Amount	%				%		%				
AAP 2021 FA. SCR DEC.043663.01	01 07 2024 – 30 06 2025	/	/	/	/	/	/	/	/	/	/	/	/	/
AAP 2024 JAD.1361790	01 07 2024 – 30 06 2025	/	/	/	/	/	/	/	/	/	/	/	/	/