



MONTENEGRO
AUDIT AUTHORITY

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ANNUAL AUDIT ACTIVITY REPORT
OF THE AUDIT AUTHORITY FOR
ANNUAL COUNTRY ACTION PROGRAMME FOR THE MONTENEGRO FOR
THE YEAR 2016, ANNUAL COUNTRY ACTION PROGRAMME FOR THE
MONTENEGRO FOR THE YEAR 2017, ANNUAL COUNTRY ACTION
PROGRAMME FOR THE MONTENEGRO FOR THE YEAR 2018 AND ANNUAL
COUNTRY ACTION PROGRAMME FOR THE MONTENEGRO FOR THE YEAR
2020

FOR THE PERIOD FROM 01 JANUARY UNTIL
31 DECEMBER 2024

Podgorica, March 2025

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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
CAP	Annual Country Action Programme for Montenegro
CFCU	Central Finance and Contracting Unit
CPA	Capital Project Administration
DMS	Directorate for Management Structure
EC	European Commission
EU	European Union
EUD	Delegation of the European Union
IA	Implementing agency
ICFR	Internal Control Framework Requirement
IPA II	Instrument for Pre-Accession Assistance II perspective
IPA	Instrument for Pre-Accession Assistance
LTEC	Long Term Employment Contract
MCSS	Management, Control and Supervision System
MF	Ministry of Finance
MTESDNRD	Ministry of Ecology, Sustainable Development and Northern Region Development
MoP	Manual of Procedures
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 Unit
TEC	Temporary Employment Contract
WLA	Work Load Analysis

1. INTRODUCTION

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

The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of 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 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) N° 447/2014 on the specific rules for implementing Regulation (EU) N° 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA II).

The Audit Authority is responsible for verifying:

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

The Audit Authority submits 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. 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 year) and the scope of the audits (including the expenditure declared to the Commission for the year concerned)

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this Annual Audit Activity Report is financial year and covers the period from 1 January to 31 December 2024.

In 2024 the Audit Authority did not perform System audit for CAP 2016, CAP 2017, CAP 2018 and CAP 2020 but did the Follow-up of findings and recommendations give in the previous System audit activity reports.

In the period covered by this report, the AA conducted audits of all Declarations on expenditure declared by NAO to EC for those Programmes (the AA conducts audit of operation on expenditure declared by NAO to the EC through the declaration on expenditure). The Audit Authority conducted Audits of Operations in 2024 for CAP 2016 (it is declared 2,320,571.86 €), for CAP 2017 (it is declared 6,108,065.19€), for CAP 2018 (it is declared 5,196,567.88€) and for CAP 2020 (it is declared 346,408.16€).

In December 2024 – January 2025 the AA performed Follow-up of the findings and recommendations given in the course of previous audits. In the period February-March 2025 AA conducted also Audit of Accounts for CAP 2016, CAP 2017, CAP 2018 and CAP 2020.

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 Annual Country Action Programme for Montenegro for the year 2016 (N° C (2016/037-896) Annual Country Action Programme for Montenegro for the year 2017 (N° C (2017/040-216; 2017/039-816), Annual Country Action Programme for Montenegro for the year 2018 (N° (CRIS) IPA/2018/040-218 and IPA/2018-040-220) and Annual Country Action Programme for Montenegro for the year 2020 (No (CRIS): IPA/2020/042-142 and IPA/2020/042-145 .

Within Annual Country Action Programme for Montenegro for the year 2016, 2 actions shall be implemented by indirect management which covers following policy areas: Environment and Climate Action (1) and Competitiveness and Innovation (1).

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2016 was signed on 22nd December 2017. The total estimated cost of Programme CAP 2016 is EUR 26,544,530 and the maximum Union contribution to this Programme is set at EUR 22,948,900.

By signing Addendum to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2016 on 31/07/2020 CAP 2016 allocates EUR 11,385,975 for capacity building and acquis related activities for the sector Environment and Climate Action and EUR 6,288,900 for strengthening the Competitiveness and innovation sector of Montenegro. Within the Education employment and social policies sector, EUR 5,334,025 is allocated for Support to COVID-19 crisis response in Montenegro, following the outbreak of worldwide COVID-19 pandemic (Direct Management).

According to that, the total estimated cost of Programme CAP 2016 covered by Financing Agreement under indirect management is EUR 20,316,265 and the maximum Union contribution to this Programme is set at EUR 17,614,875.

Within CAP 2017, 3 actions shall be implemented by indirect management which covers following policy areas: Democracy and Governance (2) and Transport (1).

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2017 was signed on 17th December 2018. The total estimated cost of the Programme CAP 2017 is EUR 16,156,529 and the maximum Union contribution to this Programme is set at EUR 13,511,103.

Within CAP 2018, 3 actions shall be implemented by indirect management which covers following policy areas: Democracy and Governance, (1) Rule of Law and Fundamental Rights and (1) Education, Employment and Social Policies (1).

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 was signed on 2nd December 2019. The total estimated cost of the Programme CAP 2018 is EUR 38,777,248,80 and the maximum Union contribution to this Programme is set at EUR 36,186,977.

By signing Addendum N°1 to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 on 30/11/2020 CAP 2018 allocates the complete amount of assistance in the amount of 9.5 million EUR which was approved for the sector Agriculture and Rural Development through the approved Financing Agreement. Funds will be used for an increase of support for the area of public health, i.e. for the construction of the building for infectious disease clinic and Dermatovenerology, as well as for procurement of equipment for the network of microbiology laboratories throughout Montenegro.

By signing Addendum N°2 to the Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2018 on 22/02/2021 the amendment of the result 7 under the action *Strengthening of quality and approach to health and social services* is foreseen, which refers to procurement of the device which conducts simultaneous analyses of a great number of respiratory samples, in the amount of 800,000 EUR.

The overall value of the amended program is 38,247,865 EUR out of which allocated EU funds amount to 36,186,977 EUR, while it is necessary to allocate 2,060,888 EUR for the needs of national Co-financing from the budget.

Within CAP 2020, 3 actions shall be implemented by indirect management which covers following policy areas: Democracy and Governance (1), Competitiveness and Innovation, Agriculture and Rural Development (1) and Education, Employment and Social Policies (1).

Financing Agreement for the Annual Country Action Programme for Montenegro for the year 2020 was signed on 31th July 2020. The total estimated cost of Programme CAP 2020 is EUR 24,435,734.94 and the maximum Union contribution to this Programme is set at EUR 22,050,000.

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

- 1) The National IPA Coordinator (NIPAC)
- 2) The National Authorizing Officer (NAO)
- 3) The Management structure:
 - The National Fund
 - The NAO Support Office
- 4) The Operating Structure:
 - The NIPAC Office;
 - Implementing Agencies: Central Finance and Contracting Unit (CFCU) and Capital Projects Administration (CPA);
 - PIUs of the line ministries: (Ministry of Ecology, Sustainable Development and Northern Region Development and Ministry of Economic Development for CAP 2016); (Ministry of Finance, Ministry of Transport; Ministry of Maritime Affairs, Ministry of Health and Ministry of Ecology, Sustainable Development and Northern Region Development for CAP 2017); (Ministry of Justice, Ministry of Interior, Ministry of Finance and Ministry of Health for CAP 2018); (Ministry of Education, Science and Innovation; Ministry of Labour, Employment and Social Dialogue and Ministry of economic development for CAP 2020).

Tabular view is shown in the table below:

Body	Role	Programmes			
		CAP 2016	CAP 2017	CAP 2018	CAP 2020
NIPAC Office	OS/NIPAC Office	X	X	X	X
NAO/NAOSO	MS	X	X	X	X
NFD	MS	X	X	X	X
CFCU	OS/IA	X	X	X	X
CPA	OS/IA	X	X	X	
Ministry of Finance	OS/PIU		X	X	
Ministry of Economic Development	OS/PIU	X			X
Ministry of Ecology, Sustainable Development and Northern Region Development	OS/PIU	X	X		
Ministry of Transport; Ministry of Maritime Affairs	OS/PIU		X		
Ministry of Justice	OS/PIU			X	
Ministry of Interior	OS/PIU			X	
Ministry of Health	OS/PIU		X	X	
Ministry of Education, Science and Innovation Ministry of Labour, Employment and Social Dialogue	OS/PIU				X

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 2024. During 2024 Audit Authority performed Follow-up of the findings and recommendations given in the course of previous audits and audits of operations for CAP 2016, for CAP 2017, for CAP 2018 and for CAP 2020.

In the period from January – March 2025 AA performed audit of the Annual Financial Reports for 2024.

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 (including follow-up), Audits of Operations, 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 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 15th March each year.

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEM

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. In our last AAAR we reported about the significant changes in the Management, Control and Supervision System (MCSS) which occurred by the end of December 2022.

In this AAAR we described significant personal and organizational changes which occurred in the period from 1st January to 31st December 2024.

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 2024 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system.

Personal changes:

- *Mr Bojan Božović has been appointed as NIPAC. Change occurred by Government conclusion from 18th January 2024. The information was submitted to the NAO in January 2024. NAO informed European Commission and Audit Authority on this personal change on 27th February 2024. (Letter No: 08- 908/24-95/1).*
- *Ms Bojana Kalezić has been transferred to the position of Head of Department for EU and other funds within PIU MTESDNRD. Change occurred by Decision of deployment in MTESDNRD.*
- *Ms Ana Raičević has left position of the NAO within Ministry of Finance. Change occurred by Government session held on 2nd February 2024. NAO informed European*

Commission and Audit Authority on this personal change on 27th February 2024. (Letter No: 08- 908/24-95/1).

- *Ms Milica Adžić has been appointed on a position of the NAO within Ministry of Finance. Change occurred by Government session held on 8th February 2024. NAO informed European Commission and Audit Authority on this personal change on 27th February 2024. (Letter No: 08- 908/24-95/1).*
- *Mr Matija Đurđevac has been appointed on a position of the SPO within PIU MTESDNRD. Change occurred by Government session held on 22nd February 2024.*
- *Ms Anja Amidžić left the position of the Acting Head of MS. Change occurred by Government session held on 11th July 2024. NAO informed European Commission and Audit Authority on this personal change on 19th July 2024. (Letter No: 08- 908/24-366/1).*
- *Mr Velibor Damjanović has been appointed on a position of a Head of MS (Director General). Change occurred by Government session held on July 11th 2024 and information submitted to EC. NAO informed European Commission and Audit Authority on this personal change on 19th July 2024. (Letter No: 08- 908/24-366/1).*
- *Mr Bojan Vujović appointed as Director General of the Directorate for coordination EU financial assistance within Ministry of European Affairs/Deputy NIPAC, Head of Managing Authority. Change occurred by Government session held on 18th July 2024.*
- *Mr Bojan Božović left his position of NIPAC. Change occurred by Government reorganization on 23rd July 2024.*
- *Mr Matija Đurđevac terminated his engagement as appointed on a position of the SPO within PIU MTESDNRD. Change occurred on Government session held on 28th August 2024.*
- *Ms Amra Pepić is appointed as the SPO in the Ministry of Health. NAO informed European Commission and Audit Authority on this personal change on 27th February 2024. (Letter No: 08- 908/24-95/1).*
- *Ms Ivona Savićević was appointed as Acting Director General of Directorate for international cooperation, European Integration and implementation of EU funds/SPO in PIU MED. NAO informed European Commission and Audit Authority on this personal change on 27th February 2024. (Letter No: 08- 908/24-95/1)*

Organizational changes:

With the reconstruction of the Government of Montenegro, the Decree on changes of Decree on the organization and manner of work of the state administration has been adopted on July 23rd 2024. The mentioned Decree has significantly changed the organization of the entire state administration, reflecting on IPA units within reorganized ministries. Adopted by the Government of Montenegro on July 23rd 2024. More precisely, along with the Ministry of

Tourism, the Ministry of Ecology, Sustainable Development and Development of the North has been added.

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 2024 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).

Audit Strategy 2024–2026 for the Annual Country Action Programme for Montenegro for the year 2014, Annual Country Action Programme for Montenegro for the year 2016, Annual Country Action Programme for Montenegro for the year 2017, Annual Country Action Programme for Montenegro for the year 2018 and Annual Country Action Programme for Montenegro for the year 2020 was prepared in November 2023. The Auditor General of Audit Authority approved it and sent it to the European Commission, with a copy to National Authorising Officer, on November 29th 2023.

There were no changes in the Audit Strategy.

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. SYSTEMS AUDITS

4.1 Details of the bodies that have carried out systems audits, including the audit authority itself

During the development of the Audit Strategy for the period 2024 - 2026, based on results of performed risk assessment for CAP 2016, CAP 2017, CAP 2018 and CAP 2020 we decided that during 2024 we will not perform System audits. It should be noted that for the last four years we carried out System audit which covered all bodies of Managing and Operating structure as well as key control elements set out in Annex B FWA. As a special activity, the AA conducts Follow-up of findings and recommendations given in the previous system audit activity reports. The common Management, Control and Supervision System (MCSS) supports the activities of all programmes and therefore the system audit is conducted as one audit for all the programmes.

Therefore in 2024 the Audit Authority did not perform System Audit for CAP 2016, CAP 2017, CAP 2018 and CAP 2020 but did the Follow-up of findings and recommendations give in the previous System audit activity reports.

4.2 Summary table of the audits carried out

Not applicable.

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

During the strategic audit planning (Audit Strategy 2024-2026 for the IPA II 2014-2020 for the CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020) for the purpose of defining audit areas the Audit Authority performed risk assessment for each body of those programmes at the key requirement/process/function level (further: process level). We identified and assessed issues and processes that are significant for the audit and that could be common for all or several bodies that are participating in management and implementation of programme.

Based on results of risk assessment performed, during preparation of the Audit Strategy 2024-2026, we decided that during 2024 (for all the bodies for which categorized risk score is low) to not perform System audits.

4.4 Principal findings / Follow-up / Corrective measures applied or recommended and Conclusion

The outcome of the Follow-up is summarized in Audit recommendation status 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.

4.5 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 national authorities to remedy these shortcomings

Not applicable.

4.6 Level of assurance obtained following the system audits and justification

According to the results of the System audits conducted in previous years (2017 – 2023) our assessment of the MCSS is based on the examination of the functioning key requirement, as well as on the results of Follow-up of previous years System audits findings and professional judgement. Considering the assessment of the Management, Control and Supervision Systems established for IPA II CAP 2016, CAP 2017, CAP 2018 and CAP 2020 we have reasonable grounds to state that the MCSS functions properly and in accordance with the requirements of the Framework Agreement. Our assessment of the MCSS for this Programme is **works, but some improvement(s) are needed.**

5. AUDITS OF SAMPLES OF TRANSACTIONS

In the period covered by this report, the AA conducted audits for all Declarations on Expenditure declared by NAO to EC for those Programmes (the AA conducts audit of operation on expenditure declared by NAO to the EC through the declaration on expenditure). The Audit Authority conducted four Audits of Operations in 2024: for CAP 2016 (IPA/2016/037-896), for CAP 2017 (IPA/2017/039-816), for CAP 2018 (IPA/2018/040-220) and for CAP 2020 (IPA/2020/042-145).

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

The audits of samples of transaction in the framework of IPA II 2014-2020 for the Annual Action Programme for Montenegro (CAP 2016), Annual Action Programme for Montenegro (CAP 2017), Annual Action Programme for Montenegro (CAP 2018) and Annual Action Programme for Montenegro (CAP 2020) was conducted by the Audit Authority of Montenegro according to Audit Strategy 2024-2026 for Annual Country Action Programme for Montenegro for the year 2014, Annual Country Action Programme for Montenegro for the year 2016, Annual Country Action Programme for Montenegro for the year 2017, Annual Country Action Programme for Montenegro for the year 2018 and Annual Country Action Programme for Montenegro for the year 2020.

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

The sampling was performed by the Audit Authority in accordance with the method described in the Audit Strategy 2024-2026 and in accordance with the EC Guidance on sampling methods for audit authorities - Programming periods 2007-2013 and 2014-2020 (EGESIF 16-0014-01).

Population contains Declared Expenditure (cost recognized) for the contracts (CAP 2016-10 contracts), (CAP 2017 - 6 contracts), (CAP 2018 - 7 contracts) and (CAP 2020 - 2 contracts) in the reference period 01.01.2024 - 31.12.2024. Therefore, the sampling unit for the Audits of transactions for the year 2024 (reference period) was the project/contract.

In the reference period, the total amount for CAP 2016 (IPA/2016/037-896) of 2,320,571.86€ for 10 contracts was declared to the European Commission by Statement of Expenditure N° 5 (4th interim payment) on 5th August 2024. Therefore, for the declared amount, the materiality level (tolerable error) is 46,411.43€ (2%).

The total amount for CAP 2017 (IPA/2017/039-816) for 6 contracts was declared to the European Commission by Statement of Expenditure N° 2 from 29th May, 2024 in the total amount of 6,108,065.19 €. Therefore, for the declared amount, the materiality level (tolerable error) is 122,161.30€ (2%).

The total amount for CAP 2018 (IPA/2018/040-220) for 7 contracts was declared to the European Commission by Statement of Expenditure N° 2 - May 30th, 2024. in the total amount of 6,191,794.19 €. Therefore, for the declared amount, the materiality level (tolerable error) is 123,835.90€ (2%).

In the reference period, the total amount for CAP 2020 (IPA/2020/042-145) of 346,408.16€ for 2 contracts was declared to the European Commission by Statement of Expenditure N° 3 (2nd interim payment) – 24th May 2024. Therefore, for the declared amount, the materiality level (tolerable

error) is 6,928.16€ (2%).

In accordance with the EC Guidelines¹ and Manual of Procedures the Audit Authority applied non-statistical sampling for the selection of the sample.

Population contains declared expenditure (cost recognized) for action/operation/contract. The sampling unit for the Audit of transactions for the year 2024 (reference period) was the project/contract. We stratified the population per contract and used the random method to select the sample. Sampling was made in specialized CAAT tool CaseWare IDEA.

Presentation of samples for Audits of Operations performed in 2024:

The Audit of Operation CAP 2016 (IPA/2016/037-896)

Out of the total 10 number of units in population, 3 of them were the subject of the audit.

Overall amount of sample size of 3 projects is EUR **850,085.04**, which presents 30.00% of the total number of units/operations (population) and 36.63% of total amount of declared expenditure.

Details about operations we have selected are given in the table below:

Contract N°	Name of the Contract	Expenditure (cost recognized) for the Audit of Operations
PWA/MNE/IPAII/CAP16/SER/01-908/20-10606	Service contract: Support to Project Preparation for Environment and Climate Change Sector, Montenegro	680,368.99
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11045	Grant contract: Increased Awareness on Environmental and Climate Action policies – ECO School (FROS)	109,716.05
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11041	Grant contract: Increased Awareness on Environmental and Climate Action policies – Preserve Nature Through E-mobility Education	60,000.00
TOTAL		850,085.04

The Audit of Operation CAP 2017 (IPA/2017/039-816)

Out of the total 6 number of units in population, 2 of them were the subject of the audit.

Overall amount of sample size of 2 projects is EUR **2,914,017.10**. Three out of nine contracts were subject of the audit, which presents 33.33% of the total number of units/operations (population) and 47.71% of total amount of declared costs.

Details about operations we have selected are given in the table below:

Contract N°	Name of the Contract	Expenditure (cost recognized) for the Audit of Operations
(PWA/MNE/IPA II/BPMD/01-908/21-5514/1)	Work contract: Reconstruction works of the Cross border railway station in Bijelo Polje	1,972,543.10
(PWA/MNE/IPAII/CAP17/SUP/01-908/21-5468/1)	Supply contract: Supply of Equipment for response to marine pollution incidents	941,474.00
TOTAL		2,914,017.10

¹ EGESIF_16-0014-01 of 20 January 2017 – Guidance on sampling methods for Audit Authorities, Programming periods 2007-2013 and 2014-2020

The Audit of Operation CAP 2018 (IPA/2018/040-220)

Out of the total 7 number of units in population, 3 of them were the subject of the audit.

Based on the results of the sampling performed, the Audit of Operations was focused on 3 contracts/projects, with a value of EUR **5,196,567.88**.

This represents 42.86 % of the total number of units/operations in the population and 83.93 % of the declared costs of the population.

Details about operations we have selected are given in the table below:

Contract N°	Name of the Contract	Expenditure (cost recognized) for the Audit of Operations
CPA/MNE/IPAII/CAP18/WKS/01-908/22-3577/1	Work contract: Construction of the clinic for dermatovenerology and clinic for infection disease	2,882,004.63
CPA/MNE/IPAII/CAP18/WKS/01-908/22-5156/1	Work contract: Reconstruction/ refurbishment of the microbiological laboratories	819,706.62
PWA/MNE/IPAII/CAP18/WKS/01-908/22-3495/1	Work contract: Construction of building for the Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations (EOC)	1,494,856.63
TOTAL		5,196,567.88

The Audit of Operation CAP 2020 (IPA/2020/042-145)

Total expenditures declared (cost recognized) are related to payments for 2 contracts in total amount of EUR **346,408.16**.

According to the fact that there is a small and limited number of sampling units for the reference year 2024, sampling method used is 100% declared expenditure (cost recognized).

Contract N°	Name of the Contract	Expenditure (cost recognized) for the Audit of Operations
(CFCU/MNE/191)	Service contract: Technical Assistance for supporting the implementation of Strategy for Smart Specialisation	147,696.95
(MN 20 IPA SO 01 22)	Twinning contract: Strengthened capacities of the Employment Agency of Montenegro in terms of ALMM implementation, future participation in ESF and facilitation of labour force mobility	198,711.21
TOTAL		346,408.16

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 bearing in mind that AA used non-statistical method.

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

In the period covered by this report, the AA conducted audits of all Declarations on Expenditure declared by NAO to EC for those Programmes (the AA conducts Audit of Operation on expenditure declared by NAO to the EC through the Declaration on Expenditure). The Audit Authority conducted four Audits of Operations in 2024 (for CAP 2016, CAP 2017, CAP 2018 and for CAP 2020).

The populations considered for drawing up the sample for the Audits of Operations is given in the table below:

Programme CAP 2016	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
Sector 3 Environment and climate actions	1,483,829.53	201,006.34	73,064.85	1,757,900.72	700,713.62	123,655.37	25,716.05	850,085.04	
Action 1: Capacity buildings acquis related activities	1,483,829.53	201,006.34	73,064.85	1,757,900.72	700,713.62	123,655.37	25,716.05	850,085.04	
Sector 5 Competitiveness and innovation	424,774.67	47,197.18	90,699.29	562,671.14	0.00	0.00	0.00	0.00	
Action 2: Strengthening the competitiveness and innovation sector in Montenegro	424,774.67	47,197.18	90,699.29	562,671.14	0.00	0.00	0.00	0.00	
Total	1,908,604.20	248,203.52	163,764.14	2,320,571.86	700,713.62	123,655.37	25,716.05	850,085.04	36.63%

Population, expenditure (cost recognized) for the Audit of Operation is 2,320,571.86€.

No negative items were present in the amounts declared to the Commission during 2024.

Programme CAP 2017	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
Sector 4: Transport	4,657,246.74	1,450,818.45	0.00	6,108,065.19	1,942,305.98	971,711.12	0.00	2,914,017.10	
Action 3: EU support for transport development	4,657,246.74	1,450,818.45	0.00	6,108,065.19	1,942,305.98	971,711.12	0.00	2,914,017.10	
Total	4,657,246.74	1,450,818.45	0.00	6,108,065.19	1,942,305.98	971,711.12	0.00	2,914,017.10	47.71%

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Population, expenditure (cost recognized) for the Audit of Operation is 6,108,065.19 €.

No negative items were present in the amounts declared to the Commission during 2024.

Programme CAP 2018	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
Sector 7: Education, Employment and Social Policies	5,971,798.19	219,996.00	0.00	6,191,794.19	5,168,256.31	28,311.57	0.00	5,196,567.88	
Action 5: EU for strengthening the quality and access of health and social services	5,971,798.19	219,996.00	0.00	6,191,794.19	5,168,256.31	28,311.57	0.00	5,196,567.88	
Total	5,971,798.19	219,996.00	0.00	6,191,794.19	5,168,256.31	28,311.57	0.00	5,196,567.88	83.93%

Population, expenditure (cost recognized) for the Audit of Operation is 6,191,794.19€.

No negative items were present in the amounts declared to the Commission during 2024.

Programme CAP 2020	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
Sector 5: Competitiveness and innovation	125,542.40	22,154.55	0.00	147,696.95	125,542.40	22,154.55	0.00	147,696.95	
Action 4: EU for Strengthening the competitiveness and innovation capacity of the private sector of Montenegro	125,542.40	22,154.55	0.00	147,696.95	125,542.40	22,154.55	0.00	147,696.95	
Sector 7: Education, employment and social policy	168,904.53	29,806.68	0.00	198,711.21	168,904.53	29,806.68	0.00	198,711.21	
Action 5: EU for Smart and Inclusive Growth – employment and social inclusion 2020	168,904.53	29,806.68	0.00	198,711.21	168,904.53	29,806.68	0.00	198,711.21	
Total	294,446.93	51,961.23	0.00	346,408.16	294,446.93	51,961.23	0.00	346,408.16	100.00%

Population, expenditure (cost recognized) for the Audit of Operation is 346,408.16€.

No negative items were present in the amounts declared to the Commission during 2024.

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

Not applicable.

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

According to EGESIF_16-0014-01 “Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020” of 20th January 2017, the sampling unit when designing the sampling methodology may be the operation, project partner or payment claim.

The sampling unit for the Audit of transactions is contract. According to the fact that there is small and limited number of sampling units in reference period, we used a non-statistical sampling method (point 4.1, 4.2, 4.3 and 6.4 of Guidance).

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)

<i>Country Annual Programme for Montenegro for year 2016 (IPA/2016/037-896)</i>	
Amount of declared expenditure	2,320,571.86€
No of units in population	10
Value of the sample tested	850,085.04€
Value of the sample tested in %	36.63%
No of units in sample	3
No of units in sample in %	30.00%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (2,320,571.86* 2%)	46,411.43€
Error amount determined by the audit	0.00
Error rate	0.00%
Extrapolated error	0.00
<i>Country Annual Programme for Montenegro for year 2017 (IPA/2017/039-816)</i>	
Amount of declared expenditure	6,108,065.19€
No of units in population	6
Value of the sample tested	2,914,017.10€
Value of the sample tested in %	47.71%
No of units in sample	2
No of units in sample in %	33.33%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (6,108,065.19* 2%)	122,161.30€
Error amount determined by the audit	0.00
Error rate	0.00%
Extrapolated error	0.00
<i>Country Annual Programme for Montenegro for year 2018 (IPA/2018/040-220)</i>	
Amount of declared expenditure	6,191,794.19€
No of units in population	7

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Value of the sample tested	5,196,567.88€
Value of the sample tested in %	83.93%
No of units in sample	3
No of units in sample in %	42.86%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (6,191,794.19* 2%)	123,835.90€
Error amount determined by the audit	5,847.93€
Error rate	0.11%
Extrapolated error	6,810.97€
Country Annual Programme for Montenegro for year 2020 (IPA/2020/042-145)	
Amount of declared expenditure	346,408.16€
No of units in population	2
Value of the sample tested	346,408.16€
Value of the sample tested in %	100%
No of units in sample	2
No of units in sample in %	100%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (346,408.16* 2%)	6,928.16€
Error amount determined by the audit	0.00
Error rate	0.00%
Extrapolated error	0.00

Information relating to the random statistical sample is distinguished from that related to other samples if applicable (e.g. risk-based complementary samples)

Not applicable.

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

The overall audits objective was to verify the legality and regularity of Declared Expenditures, in accordance with AA competencies established by the Law on Audit of EU Funds and functions and the responsibilities set out in Annex A of the Framework Agreement concluded between the Government of Montenegro and the European Commission (Official Gazette of Montenegro 5/2015).

In order to obtain the abovementioned audit objectives, the following audits areas were covered during the Audits of Operation:

- a) Operation's compliance with Operational Programme,
- b) Procurement procedures (tendering and contracting),
- c) Eligibility of expenditure,
- d) Publicity and Visibility,
- e) Payments,
- f) Accounting and supporting documents,
- g) National co-financing,
- h) Reality of operation,
- i) Fulfilment of the operation objectives
- j) Audit trail.

The Audit of Operation CAP 2016 (IPA/2016/037-896)

Cost recognized refers to the following contracts:

Contract N°	Name of the Contract	Costs recognized/Request for Funds Instalment N° 5	Costs recognized/Request for Funds Instalment N° 4	Population for selecting the sample
PWA/MNE/IPAII/CAP16/SER/01-908/20-10606/1	Service contract: Support to Project Preparation for Environment and Climate Change Sector, Montenegro	1,779,200.96	1,098,831.97	680,368.99
PWA/MNE/IPAII/CAP16/SER/01-7497/1	Service contract: Support to Implementation and Monitoring of Water Management, Montenegro	2,705,608.30	2,151,364.49	554,243.81
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10672	Supply contract: Supply of IT Equipment for horizontal support to Environmental Monitoring and the equipment for Air quality sub-sector, Montenegro - (Lot 1)	123,217.98	123,217.98	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10762	Supply contract: Supply of IT Equipment for horizontal support to Environmental Monitoring and the equipment for Air quality sub-sector, Montenegro - lot 2	31,914.00	31,914.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10762	Supply contract: Supply of IT Equipment for horizontal support to Environmental Monitoring and the equipment for Air quality sub-sector, Montenegro - (Lot 3)	62,100.00	62,100.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10414	Supply contract: Supply of the equipment for the implementation and monitoring of water management, inland and coastal, in Montenegro - LOT 3	48,080.00	48,080.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10415	Supply contract: Supply of the equipment for the implementation and monitoring of water management, inland and coastal, in Montenegro - LOT 6 Chemical standards and reference materials	19,740.00	19,740.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10672	Supply contract: Supply of Equipment for Support to Implementation and Monitoring of Waste Management, Montenegro - LOT 1: Municipal waste containers	386,971.20	386,971.20	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10762	Supply contract: Supply of Equipment for Support to Implementation and Monitoring of Waste Management, Montenegro – LOT 2: Vertical Baling Press Machine	43,396.65	43,396.65	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10659	Supply contract: Supply of the equipment for the implementation of the European Civil Protection Mechanism (Lot 1- Supply of the vehicle)	104,940.00	104,940.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10660	Supply contract: Supply of the equipment for the implementation of the European Civil Protection Mechanism (Lot 2 - Supply of vans)	42,920.00	42,920.00	0.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-10661	Supply contract: Supply of the equipment for the implementation of the European Civil Protection mechanism (Lot 4)	5,790.00	5,790.00	0.00
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11044/1	Grant contract: Grant contract: Increased Awareness on Environmental and Climate Action policies – ClimCity – Urban Adaption to Climate Change in Montenegrin schools	82,000.00	82,000.00	0.00
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11042/1	Grant contract: Increased Awareness on Environmental and Climate Action policies – Green point	57,995.46	57,995.46	0.00
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11043/1	Grant contract: Increased Awareness on Environmental and Climate Action policies – Green Thinking for Greener Community	74,923.02	74,923.02	0.00
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11040/1	Grant contract: Increased Awareness on Environmental and Climate Action policies – Climate Awareness Project! Afforestation of NP Prokletije for a higher resistance to fires and climate change	83,796.68	83,796.68	0.00
(MN 16 IPA HE 01 20)	Twinning contract: Support to the Agency for Medicines and Medical Devices of Montenegro (CALIMS) (MN 16 IPA HE 01 20)	370,544.89	264,506.75	106,038.14
CFCU/MNE/141	Service contract: Improving access to finance of private sector for competitiveness and innovation	626,707.13	626,707.13	0.00
CFCU/MNE/142	Service contract: Promoting the internationalization of Montenegrin economy, with a focus on SMEs	294,800.00	294,800.00	0.00
CFCU/MNE/102	Service contract: Promoting innovation culture and supporting collaboration between research, education and innovation actors	289,900.00	289,900.00	0.00
CFCU/MNE/124	Supply contract: Improvement of R&I related infrastructures that can be used in support for SMEs development	269,442.00	269,442.00	0.00

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CFCU/MNE/125	Supply contract: Improvement of R&I related infrastructures that can be used in support for SMEs development (LOT 2: Laboratory equipment for Industrial design)	354,015.00	354,015.00	0.00
CFCU/MNE/126	Supply contract: Improvement of R&I related infrastructures that can be used in support for SMEs development (LOT 3: IT equipment for Data center)	194,467.00	194,467.00	0.00
CFCU/MNE/103	Supply contract: Supply of equipment for strengthening capacities of relevant institutions involved in Competitiveness and Innovation Sector in Ministry of Economic Development (LOT 1: IT Hardware)	959,098.00	959,098.00	0.00
CFCU/MNE/104	Supply contract: Supply of equipment for strengthening capacities of relevant institutions involved in Competitiveness and Innovation Sector in Ministry of Economic Development (LOT 2: Software Package and Information System)	271,000.00	271,000.00	0.00
CFCU/MNE/143	Direct award contract: Supporting entrepreneurship through advanced advisory services and information services for SMEs	1,229,665.00	773,032.00	456,633.00
PWA/MNE/IPAII/CAP16/SUP/01-908/20-11037	Grant contract: Increased Awareness on Environmental and Climate Action policies – Raising Environmental Awareness on Circular economy and natural Habitats of Cetinje and Lovćen	113,280.90	0.00	113,280.90
PWA/MNE/IPAII/CAP16/SUP/01-908/20-11046	Grant contract: Increased Awareness on Environmental and Climate Action policies – From Education and connecting children back to nature, to the research in Dendrochronology and Raising Awareness on how climate has changed through past century in Montenegro	89,266.89	0.00	89,266.89
PWA/MNE/IPAII/CAP16/SUP/01-908/20-11039	Grant contract: Increased Awareness on Environmental and Climate Action policies – BIOdiversity VALues - BIOVAL	87,685.66	0.00	87,685.66
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11045	Grant contract: Increased Awareness on Environmental and Climate Action policies – ECO School	109,716.05	0.00	109,716.05
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11038	Grant contract: Increased Awareness on Environmental and Climate Action policies – Sustainable forest management for all	63,338.42	0.00	63,338.42
PWA/MNE/CAP2016/IPAII/GRA/01-908/20-11041	Grant contract: Increased Awareness on Environmental and Climate Action policies – Preserve Nature Through E-mobility Education	60,000.00	0.00	60,000.00
Total:		11,035,521.19	8,714,949.33	2,320,571.86

Following bodies were covered during the audit:

- Ministry of Tourism, Ecology, Sustainable Development and Northern Region Development - PIU;
- Administration for Capital Projects (CPA) - Implementing Agency;
- National Fund Division (NFD).

During the audit, we have identified and documented two system findings. No transaction findings were identified.

System Finding N° 1: Amendment of the Financial Agreement

This finding is related to all projects for CAP 2016

Level of Priority: *Major*

Implementation Deadline: *As soon as possible*

Responsible Body/ies: *NIPAC Office*

Based on insight into submitted documentation during the audit performed we determined the following:

As per Article 17 point 2 of the Financial Agreement (FA) for CAP 2016, " ... any amendment of the Financial Agreement shall be made in writing, including an exchange of letters..."

During the fieldwork which we conducted, together with OTSC and based on the documentation available to us, it was determinate that changes in the financing for CAP 2016 were not foreseen by the latest amendments of the FA.

The most recent Addendum of the FA (Addendum N° 2, signed on 31th October 2022) does not include provisions for the financial modifications that occurred.

The NIPAC Office, along with all parties involved in this process, was required to amend the Financial Agreement in order to reflect the changes.

Recommendation:

We recommend to NIPAC Office:

- update the Financial Agreement for CAP 2016, along with all associated action documents, to reflect the changes in financing.

Taking into account the attached documentation, we consider this **finding closed**.

System Finding N° 2: Communication between institutions

Operation/Contract: *Service Contract (PWA/MNE/IPAI/CAP16/SER/01-908/20-10606)*

Level of Priority: *Intermediate*

Implementation Deadline: *Continuously*

Responsible Body/ies: *Administration for Capital Projects (IA) and Ministry of Ecology, Sustainable Development and Northern Region Development (PIU)*

During the fieldwork, we determined that certain omissions occurred during the implementation of the project. Specifically, lack of communication and misunderstandings led to the challenges in the implementation of the project *Support to Project Preparation for the Environment and Climate Change Sector, Montenegro*.

Furthermore, during the interview which we conducted with the representatives of the PIU, we concluded that inadequate implementation (mostly caused by misunderstandings between PIU and IA) necessitated the fulfilling of the *Irregularity Alert Form (IAF)* by MESDNRD/PIU.

The disagreement started towards the end of implementation. The PIU, which is also the Final Beneficiary for this contract, requested Administrative order for Re-allocation working days of Non-key Experts. At the same time, Contractor submitted request for Administrative order which they sought, beside to the request from the PIU, additional working days of Key Expert 1. The PIU did not consent to the Contractor's extended request.

Finally, CPA has approved Contractor's request, besides PIU's disagreement related to additional working days of Key Expert 1. By this Administrative order, on 5th December 2024, 27,5 days were approved for Key-expert 1, although that this contract would be closed on 20th December 2024.

Recommendation:

Considering above mentioned, it is essential to enhance communication and cooperation to facilitate the more effective implementation and management of project(s).

The Audit of Operation CAP 2017 (IPA/2017/039-816)

Cost recognized refers to the following contracts:

Contract No	Name of the Contract	Costs recognized/ Request for Funds Instalment no 3	Costs recognized/ Request for Funds Instalment no 2	Population for selecting the sample
Service (PWA/MNE/IPA II/CAP17/SER/01-8132/1)	Technical assistance for capacity support to the transport sector and EU acquis alignment in Montenegro	2,995,856.14	612,595.98	2,383,260.16
Service (PWA/MNE/IPA II/CAP17/SER/01-908/21-4474/1)	Technical assistance for project preparation of investment in the transport sector in Montenegro	654,058.42	0.00	654,058.42
Service (PWA/MNE/IPA II/BPMD/SER/7830/1)	Preparation of the main design for reconstruction of the Cross- border railway station in Bijelo Polje and Supervision of the reconstruction works	181,165.00	79,805.00	101,360.00
Work (PWA/MNE/IPA II/BPMD/01-908/21-5514/1)	Reconstruction works of the Cross- border railway station in Bijelo Polje	1,972,543.10	0.00	1,972,543.10
Service (PWA/MNE/IPA II/SER/01-908/21-2171)	Revision of the main design for reconstruction of the Cross- border railway station in Bijelo Polje	10,000.00	10,000.00	0.00
Supply (PWA/MNE/IPAII/CAP17/SUP/01-908/21-5468/1)	Supply of Equipment for response to marine pollution incidents	941,474.00	0.00	941,474.00
Service (PWA/MNE/IPA II CAP 17/SER/ 01-908/21-560/1)	Establishment of a National Maritime Single Window (NMSW)	55,369.51	0.00	55,369.51
CFCU/MNE/145	Service contract: Assistance in preparation of TD for works and supervision of the Clinic for Dermatovenereology and Infectious Diseases	19,800.00	19,800.00	0.00
Total:		6,810,466.17	702,400.98	6,108,065.19

Following bodies were covered during the audit:

- Ministry of Transport – PIU;
- Ministry of Maritime Affairs – PIU;
- Administration for Capital Projects (CPA) – Implementing Agency;
- National Fund Division (NFD).

During the audit, we have identified and documented four system finding. No transaction findings were identified.

System Finding N° 1: *Establishment of PIUs, Nomination of SPO and Recruitment of Staff*

Level of Priority: *Major*

Implementation Deadline: *As soon as possible*

Responsible Body/ies: *Ministry of Transport and Ministry of Maritime Affairs*

During the audit, we performed OTSC in relevant PIUs (Ministry of Transport and Ministry of Maritime Affairs) having in mind that contracts which were subjects of the audit were in jurisdiction of these ministries. It should be point out that, before July 2024, when governmental changes occurred, these ministries were part of one organizational unit/ministry (Ministry of Transport and Maritime Affairs). After organizational changes, they were separate in two.

Ministry of Maritime Affaires

During the audit we have noticed that unit which has to be responsible for implementing IPA projects does not exist, it is not formed. Currently, the situation in the ministry is such that only one employee (engaged on short term basis) is working on all IPA – related tasks. Also, from above mention, it is clear that SPO is not nominated. Under these conditions, none of the principles which are fundamental for functioning of the system has been respected.

Ministry of Transport

Regarding the Ministry of Transport, the Unit which has to be responsible for implementing IPA projects does not exist, two employees are working on IPA related tasks, one of them is engaged on short term basis and another on long term basis.

We are aware the institutional changes have contributed to this situation, but they cannot be an excuse for the current state.

In addition, it should be noted that during the fieldwork it was determined that certain omissions regarding both projects which were audited, were caused by insufficient and inadequate communication between all stakeholders. It is necessary to improve things in this field in order to enable more effective planning and management of projects.

Recommendation:

We recommend to:

- establish a unit for implementing IPA projects and to recruit necessary personnel in Ministry of Transport and Ministry of Maritime Affairs;
- appoint SPO in the Ministry of Maritime Affairs.

System Finding N° 2:

Operation/Contract: Work Contract (PWA/MNE/IPAI/BPMD/01-908/21-5514/1)
Reconstruction works of the Cross-border railway station in Bijelo Polje

Audit area: I - Fulfilment of the operation objectives

Level of Priority: Major

Implementation Deadline: Immediately

Responsible Body/ies: CPA

During the OTSV we have noticed that construction of fence toward settlement of Nedakusi (position – K.25.3 – metal fence) has not been completed 100%, according to the project/plan. Total quantity to execute according to the plan should have been 1199,35m. After verification of total length fence, we determined that were missing two parts of the fence in total length of 39,5m (parcel 1 – 18,5m and parcel 2 – 21m), meaning that contractual obligation have not been respected. Bearing in mind that installation of fence ensures greater security, and to avoid potential risks which may occur, considering proximity of railway, this matter have to be resolved as soon as possible.

Recommendation:

We recommend to the CPA to:

- execute the unfinished works i.e. completion of construction of fence toward village of Nedakusi.

System Finding N° 3: Water outbreak

Operation/Contract: Work Contract (PWA/MNE/IPAI/BPMD/01-908/21-5514/1)
Reconstruction works of the Cross-border railway station in Bijelo Polje

Audit area: I - Fulfilment of the operation objectives

Level of Priority: Major

Implementation Deadline: Immediately

Responsible Body/ies: CPA

During the OTSC we have identified that, in an underground passage, more precisely, passage which is located under the first and second track, which serves for the safe movement of passengers and exit to the platforms, water breaking out from ceramic tiles. Due to the water outbreak, the two plates came off. Also, in the ground floor, water outbreak and mold appear in stockroom (premises for the authorities of the Republic of Serbia), which creates unpleasant scent. The stockroom is in seriously bad condition. Water outbreaking from underneath is result of ineffective drainage system. Above mentioned problem affects negatively on the functionality, security and appearance of the entire project.

Recommendation:

We recommend to the CPA to:

- fix the problem with water urgently in order to prevent destruction of the rest of the tiles, and to fix situation in the stockroom, with the aim to have stable and dry environment.

After OTSC which we performed once more on 05/12/2024 we determinate that problem with water was fixed. Therefore, we consider this **finding closed**.

System Finding N° 4: Unfunctional and missing items

Operation/Contract: Work Contract (PWA/MNE/IPAIL/BPMD/01-908/21-5514/1)
Reconstruction works of the Cross-border railway station in Bijelo Polje

Audit area: I - Fulfilment of the operation objectives

Level of Priority: Major

Implementation Deadline: Immediately

Responsible Body/ies: CPA

In accordance to the project/main design, there was an obligation:

- 1) Installation of passenger's elevators. During the OTSC we have noticed that 2 out of 3 elevators are not functional and that cannot be used. It is necessary to appoint that this matter has effect on reality of operation;
- 2) Installation of info panel which shows train schedule. During the OTSC we have noticed that panel is not working;
- 3) Setting up orientation plans and Braille letter. We concluded that they were missing.
- 4) Install accessibility labels/signs on counters at the station and at the entrance of the building. They were not installed;
- 5) Toilets for persons with disability need to have accessibility labels/signs. They were locked, and did not have accessibility labels/signs;
- 6) Install two inclined platform stair lifts. One of them is not in function.

Recommendation:

We recommend to the CPA:

- repair, replace and put in use items which are not functional and in use.

After performing another OTSC on 05/12/2024, we determined that all non-functional and missing items have been repaired, replaced, and put into use. Therefore, we consider this **finding closed**.

The Audit of Operation CAP 2018 (IPA/2018/040-220)

Cost recognized refers to the following contracts:

Contract No	Name of the Contract	Costs recognized/Request for Funds Instalment no 2	Costs recognized/Request for Funds Instalment no 1	Population for selecting the sample
Service contract (PWA/MNE/IPA II/CAP18/SER/01-908/22-1337/1)	“Assistance in translation of the technical specifications (main design-adaptation) and preparation of tender dossiers for adaptation works and supervision of adaptation works of microbiological laboratories and supply of equipment”	8,000.00	8,000.00	0.00
Works contract (CPA/MNE/IPAII/CAP18/WKS/01-908/22-3495/1)	“Works on the construction of one building for the Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations”	1,661,060.36	166,203.73	1,494,856.63
CPA/MNE/IPAII/CAP18/SER/01-908/22-4381/1	Supervision of works on construction of clinic for infectious disease and for dermatovenerology	85,712.35	0.00	85,712.35
CPA/MNE/IPAII/CAP18/WKS/01-908/22-3577/1	Construction of the clinic for dermatovenerology and clinic for infection disease	2,882,004.63	0.00	2,882,004.63
CPA/MNE/IPAII/CAP18/SUP/01-908/22-5074/1	Procurement, purchase, delivery, installation and training for microbiology equipment	839,864.00	0.00	839,864.00
CPA/MNE/IPAII/CAP18/WKS/01-908/22-5156/1	Works on reconstruction/ refurbishment of the selected laboratories to the necessary standard to host the new equipment	819,706.62	0.00	819,706.62
CPA/MNE/IPAII/CAP18/SER/01-908/22-4842/1	Supervision of the works on reconstruction/refurbishment of the selected laboratories	34,999.96	0.00	34,999.96
CPA/MNE/IPAII/CAP18/SER/01-908/22-5047/1	Supervision of the works on construction of the Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations	34,650.00	0.00	34,650.00
Total		6,365,997.92	174,203.73	6,191,794.19

Following bodies were covered during the audit:

- Ministry of Health – PIU;
- Administration for Capital Projects (CPA) – Implementing Agency;
- National Fund Division (NFD).

During the audit, we have identified and documented four system finding and one transaction findings were identified.

SYSTEM FINDINGS

System Finding N° 1: Principles of Contracting

This finding is related to contract CPA/MNE/IPAII/CAP18/WKS/01-908/22-5156/1Reconstruction/ refurbishment of the microbiological laboratories

Audit area: B - Procurement procedures (tendering and contracting)

Level of Priority: Major

Implementation Deadline: Continuously

Responsible Body/ies: Ministry of Health and CPA/IA

During the audit in a relation to contract PWA/MNE/IPAII/CAP18/WKS/01-908/22-3495/1 Works on reconstruction/ refurbishment of the selected laboratories we noticed the following: On July 22nd 2022. Tender Dossier was launched, and the deadline for submission was on September 20th 2022. Only one tenderer submitted the offer ((Consortium La Collina LLC (Leader)LTD Podgorica and Stambeno LLC, Nikšić LTD)) in the total amount of EUR 1,191,479.82. On October 19th 2022. Evaluation Report was prepared and sent on approval to EUD. EUD suspended Evaluation Report stated, among the other things, that: "... price from the only tenderer exceeds the amount estimated for the contract by approximately 2.7 times...". First of all, from the Evaluation Report is cleared that even the members of the Evaluation Committee (EvC) were surprised by the amount of the submitted offer, which is obvious from the point 3.4 were they stated that: The Evaluation Committee notes that the tender offer is sufficiently over the budget and over the estimated price of Main Design. The Main Design is relatively recently finished so EvC members are on the unanimous decision that there is no reason for that high price difference, considering that there were no bigger market disruptions since the Main Design is finished. In the next paragraph under the Point 4 of the Evaluation Report they recommend the same contract to be awarded. It is clear that exist inconsistency between the conclusion of the EvC members and the sentence under the point 3.4 also from the EvC members. After the suspension of the Evaluation Report, in the letter from November 11th 2022 acting director of CPA trying to explain to EUD that circumstances such as Covid-19 Pandemic and war in Ukraine caused great disruption in the market of construction materials, labour and especially energy products so it was impossible to affect the prices and that they could not expected that the tender prices could be higher than estimated. Additionally, he stated that deadline for contracting projects within IPA 2018 was 2nd December 2022 and cancellation of the tender procedure would result in the loss of the project and potential re-launching is not possible due to the deadline for contracting. Also, acting director of CPA reminded that for two contracts which were also subject of this audit (CPA/MNE/IPAII/CAP18/WKS/01-908/22-3577/1PWA/MNE/IPAII/CAP18/WKS/01-908/22-3495/1) all submitted offers were much more than estimated budget. After the explanation letter from representative of CPA the Evaluation report was approved by EUD. We understand that Contracting Authority had the best of intentions to use all allocated funds and contract all projects, however, contracting in this manner, where EvC accept offer which is much higher from the estimated (estimated EUR 438,365.10 contracted EUR 1,191,479.82) and were the same members of the EvC have doubts about accuracy of this offer is unacceptable. We are aware that discrepancy between estimated and contracted budget must exist but not to this extent. IPA II beneficiary shall respect the principles of sound financial management as it is stated in Article 12 of Framework Agreement - Conditions for entrusting the IPA II beneficiary with budget implementation tasks. The principle of sound financial management comprises the principles of economy, efficiency and effectiveness. The principle of economy requires that the resources used shall be made available

in due time, in appropriate quantity and quality and at the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of effectiveness concerns the attainment of the specific objectives set and the achievement of the intended results. All interested parties have to be aware that the pre-tender phase involves identifying needs, planning and budgeting, project preparation — including defining requirements — and selecting the type of procurement procedure. Therefore, this phase is considered crucial for successful procurement management and preparation of high — quality projects. A well-executed pre-tender phase, not only ensures compliance with legal frameworks and procedures but also minimizes the risk of amendments and changes to contracts, which often lead to delays and cost increases. Additionally, procurement procedures and the evaluation process also must be conducted promptly and with greater diligence. This will help avoid situations where a project is approved under any price or conditions solely to ensure it is contracted.

Recommendation:

We recommend CPA and Ministry of Health to:

- develop a realistic and sustainable procurement plan. This, along with an accurate budget, will ensure efficient resource management and help prevent cost overruns.

System Finding N° 2: *Unsafe drinking water*

This finding is related to contract CPA/MNE/IPA II/CAP18/WKS/01-908/22-3495/1 “Construction of building for the Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations (EOC)”

Audit area: I - Fulfilment of the operation objectives

Level of Priority: Major

Implementation Deadline: Immediately

Responsible Body/ies: CPA/IA

During the OTSC which we performed at final beneficiary Institute for Public Health (IPH) we conducted interviews with the employees and determinate that: Employees at the new building of IPH (Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations) (EOC), which they moved into a few months ago, do not have access to safe drinking water. Representatives of the institution confirmed that the water is not recommended for drinking and that alternative water sources are being used. They moved into the premises of the new building, at the end of June 2024. According to employees of IPH, a specific scent was detected in the water and they immediately collected samples. Laboratory results revealed the presence of mineral oils in some samples at concentrations that exceed the maximum allowable limits for safe drinking water. Additionally, they reported that the water in the new building does not meet the standards and criteria for drinking due to deviations in certain parameters which are prescribed by the Regulation on Parameters, Compliance Checks, Methods, Scope of Analysis, and Monitoring of Health Safety of Water for Human Consumption (Official Gazette of Montenegro No. 64/18 and 101/21).

The representatives explained that these issues could be linked to the newly installed water systems, which is why testing of water samples in newly constructed facilities is a mandatory practice. Although the contractor has conducted some kind of testing, it's obvious that water is not

recommended for drinking. This is particularly unacceptable for an institution such as the Institute for Public Health.

Recommendation:

We recommend to the CPA:

- resolve water issues in the new building of the IPH to ensure the healthy water, which is essential for functioning.

System Finding N° 3: Visibility Requirements

This finding is related to contract CPA/MNE/IPAII/CAP18/WKS/01-908/22-5156/1 “Reconstruction/ refurbishment of the microbiological laboratories”

Audit area: D - Publicity and Visibility

Level of Priority: Major

Implementation Deadline: As soon as possible

Responsible Body/ies: CPA/IA

During the OTSC which we conducted at the final recipient of assistance—Public Health Centre (PHC) in Kotor, Budva, Nikšić, Brezovik and Bijelo Polje (Microbiological Laboratories) we have determinate the following:

None of these laboratories have the EU plaque placed in a visible location, as required. When managing an EU-funded project, all recipients of EU funding have a general obligation to acknowledge the origin and ensure the visibility of any EU funding received. As outlined in ‘Communicating and raising EU visibility: Guidance for external actions’ point 2.3.2 on Commemorative plaques: “EU contributions to the construction of permanent structures such as houses, clinics, factories, institutions, training centres, roads and bridges must be acknowledged by permanent commemorative plaques. These must be placed, for example during the opening ceremony, in the most visible part of the structure, such as the main entrance, or in front of the building. The plaque must include the EU emblem and be inscribed with the relevant funding statement (‘Funded by the European Union’ or ‘Co-funded by the European Union’)”. Furthermore, in accordance with the Special Condition of the contract Article 12 General obligations it is stipulated that: “...Permanent commemorative plaque shall be placed at the main entrance of the building site accesses, indicating that this structure was funded by EU...”

Recommendation:

We recommend to the CPA:

- Place the Permanent commemorative plaque in a visible location, accompanied by a funding statement such as ‘Funded by the European Union’ or ‘Co-funded by the European Union’.

System Finding No 4: Amendment of the Financial Agreement

This finding is related to all contract from Health Sector (CAP 2018 Objective (2018/040-220)).

Level of Priority: Major

Implementation Deadline: As soon as possible

Responsible Body/ies: NIPAC Office

As per Article 17 point 2 of the Financial Agreement (FA) for CAP 2018, " ... any amendment of the Financial Agreement shall be made in writing, including an exchange of letters..." In accordance with the Addendum No 2 of the FA (signed on 23th February 2021) Sector 7, Action 5, Results 1,2,5 and 6 are envisaged to be funded in the total amount (100%) by EU budget.

During the fieldwork which we conducted, together with OTSC and based on the documentation which was available to us, we noticed a change in the source of financing for the contracts in the health sector - introduction of national co-financing which occurred for some of the projects. Furthermore, during the audit we could not confirm the existence of an amendment to the Financial Agreement and other relevant documents, that would include these changes. The more recent Addendum of the FA (Addendum No 3, signed on 26th August 2022) does not include provisions for national co-financing for health sector. The NIPAC Office, along with all parties involved in this process, was required to amend the Financial Agreement in order to reflect the changes introduced by national co-financing.

Recommendation:

We recommend to the NIPAC Office to:

- update changes in the Financial Agreement and all action documents which occurred by introduction of the national co-financing for health sector.

TRANSACTION FINDINGS

System Finding N° 1: Ineligible expenditure

Operation/Contract: CPA/MNE/IPA II/CAP18/WKS/01-908/22-3495/1 " Construction of building for the Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations (EOC) "

Audit area: C Eligibility of Expenditure

Level of Priority: Major

Implementation Deadline: Immediately

Responsible Body/ies: CPA/IA

Based on a review of the submitted documentation, as well as OTSC site in the new facility Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations (EOC) we have determined the following: The works, requested and approved under the Administrative order (AO) No5, such as procurement, delivery and executions of works are not in compliance with the Tender Documentation. To be precise, these works were carried out on existing building of the IPH which is not covered under the scope of this this contract. Namely, the declared (cost recognized) expenditure includes the costs for the execution of works on the existing facility of IPH, in the amount of EUR 3,187.09 for dry assembly works, room

construction, temporary facility, ceramic, painting, locksmith and carpentry works (points 1.1.-5.1. of AO No5). Additionally, EUR 2,660.84 was allocated for ceramics works on the staircase at the entrance of the Epidemiology department of the existing facility of IPH (points 8.1.-8.2. of AO No. 5). These expenditures were identified as ineligible bearing in mind that they were not foreseen by Tender Documentation of the contract. Having in mind above mention, we consider the cost of EUR **5,847.93** ineligible.

Recommendation:

We recommend to CPA: - Recover the identified ineligible expenditure in the amount of EUR 5,847.93.

The Audit of Operation CAP 2020 (IPA/2020/042-145)

Cost recognized refers to the following contracts:

Contract No	Name of the Contract	Costs recognized/Request for Funds Instalment N° 3	Costs recognized/Request for Funds Instalment N° 2	Population for selecting the sample
(CFCU/MNE/191)	Service contract: Technical Assistance for supporting the implementation of Strategy for Smart Specialisation	193,823.74	46,126.79	147,696.95
(CFCU/MNE/201)	Supply contract: Improvement of technical capacities of institutions involved in Competitiveness and Innovation; Lot 1: Supply of IT hardware equipment for inspection affairs	297,896.31	297,896.31	0.00
MN 20 IPA SO 01 22	Twinning: Strengthened capacities of the Employment Agency of Montenegro in terms of ALMM implementation, future participation in ESF and facilitation of labour	198,711.21	0.00	198,711.21
Total		690,431.26	344,023.10	346,408.16

Following bodies were covered during the audit:

- Ministry of Education, Science and Innovation – PIU
- Ministry of Labor, Employment and Social Dialogue
- Central Finance and Contracting Unit (CFCU) - Implementing Agency
- National Fund Division (NFD).

No system or transaction findings were identified.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable

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

The conclusions of the audits are based on the information and documents gathered during the audit from beneficiaries and management, control and supervision system 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 audited expenditure declared are in all material aspects, legal and regular except expenditures described in transaction finding N°1, section 5.8 of this report. Extrapolated error on the overall population is EUR **6,810.97** and it is below the materiality threshold as presented in the table.

<i>No</i>	<i>Finding N°1 Ineligible expenditure</i>	<i>Level of importance</i>	<i>Financial impact (EUR)</i>
1	<i>Ineligible costs for contract CPA/MNE/IPA II/CAP18/WKS/01-908/22-3495/1</i>	<i>Major</i>	5,847.93
2	<i>Total</i>		5,847.93
3	<i>Amount of expenditure declared in reference period</i>		6,191,794.19
4	<i>Materiality 2% of expenditure declared in reference period (tolerable misstatement) (6,191,794.19 * 2%)</i>		123,835.88
5	<i>Value of the sample tested</i>		5,196,567.88
6	<i>Error rate (2/5*100)</i>		0,11%
7	<i>Extrapolated error (3*6)</i>		6,810.97

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 II 2014-2020 for the Annual Country Action Programmes for Montenegro for the years 2014, 2016, 2017, 2018 and 2020 submitted to European Commission - DG Near on November 29th 2023 the Audit Authority of Montenegro carried out an Audit of completeness, accuracy and veracity of the annual financial reports or statements (Audit of Accounts) for above mentioned programmes for the reference financial year 2024, i.e. the accounting year from 1st January to 31st December 2024, issued by NAO on 15th February 2025 (Final Report on Audit of Accounts).

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

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 reports or statements, the Audit Authority verifies whether all accounting information presented in the Annual financial reports 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 CAP for the year 2016, 2017, 2018 and 2020, i.e. cumulative amounts declared from the programmes, are correctly included in the accounts and correspond to the supporting accounting records maintained by bodies in the National Fund Division (NF) and Implementing Agencies / Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and Capital Projects Administration (CPA).

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 2024 to EC on 15th February 2025.

This Audit of Accounts covered Annual Financial Report for 2024 for the Annual Country Action Programmes for Montenegro for the years 2016, 2017, 2018 and 2020.

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 2024, are presented in the table below:

Financial/accounting year: 2024

IPA II Annual Country Action Programmes CAP 2016, CAP 2017, CAP 2018 and CAP 2020

Programme	Financing Agreement contract number	Local Contract Activities															
		Total Amount Contracted			Amount Decommitted 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
CAP 2016	2016/037-896	13,007,363.49	1,591,610.63	454,800.79	0,00	10,736,469.62	1,491,019.49	0.00	10,085,993.70	1,400,616.60	352,044.50	650,475.92	90,402.89	0.00	5,765.00	0,00	2,202,732.03
CAP 2017	2017/040-216	3,645,978.61	943,852.00	0.00	0,00	3,367,319.76	943,852.00	0.00	3,180,119.76	943,852.00	0.00	187,200.00	0.00	0.00	0,00	20,064.22	143,300.00
CAP 2017	2017/039-816	8,968,683.38	2,261,418.22	0.00	0,00	7,452,086.69	1,944,025.62	0.00	6,587,969.57	1,772,508.88	0.00	880,288.76	155,345.10	0.00	0,00	0,00	1,453,879.21
CAP 2018	2018/040-218	10,998,435.92	13,677,150.92	0.00	0,00	8,607,159.37	8,757,453.67	0.00	8,208,629.65	8,518,131.91	0.00	398,529.68	239,321.81	0.00	0,00	0,00	2,054,933.22
CAP 2018	2018/040-220	12,780,000.00	1,471,906.19	0.00	0,00	11,819,894.14	896,064.37	0.00	11,797,802.66	874,072.92	0.00	22,091.48	21,991.46	0.00	0,00	0,00	960,106.10
CAP 2020	2020/042-142	448,149.19	448,149.19	0.00	0,00	448,149.19	448,149.19	0.00	448,149.19	448,149.19	0.00	0.00	0.00	0.00	0,00	0,00	0.00
CAP 2020	2020/042-145	7,138,491.64	1,259,733.79	558,356.87	0,00	5,818,155.50	1,026,733.30	0.00	3,120,604.67	550,694.92	90,502.17	2,697,550.83	476,038.38	0.00	0,00	0,00	1,279,847.21

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

- the total amounts submitted in the Annual Financial Report (contracted and addendums signed, amounts disbursed, total costs recognized, 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 of audits performed in 2024.

Audit was carried out considering the results of Follow-up for the CAP 2016, CAP 2017, CAP 2018 and CAP 2020 by Audit Authority and audits of operations/transactions for CAP 2016, CAP 2017 (2017/039-816), CAP 2018 (2018/040-220) and CAP 2020 (2020/042-145). During 2024, NAO did not submit a request for funds including a “Declaration of expenditure”, for programmes: CAP 2017 (2017/040-216) and CAP 2018 (2018/040-218).

For the purpose of the Audit of Accounts, AA performed additional tests on the sample of transactions included in financial reports/accounts for programmes for which were not performed Audit of Operations. 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. Population consists of transactions per each Programme (budgetary line) for reference period 01/01/2024 - 31/12/2024. We excluded transactions audited through the System audit, stratified the whole population in strata per each Programme (budgetary line) and used the random method to select the sample in each stratum. We decided to increase audited sample and took around 30% of total number of payments per each budget line per every Programme. The purpose of test sample of transactions, included in financial reports/accounts, is to check whether it correspond with the amounts specified in the verified documents, collected from NF and IA/CFCU and CPA.

During the field work we held meetings with representatives of NFD, CFCU and CPA for the purpose of getting some clarifications and the additional evidence collecting. Audit testing was performed on the collected evidence. Audit was performed using the Checklist for Audit of Accounts (Annex 4c of the AA MoP). Comparison and testing data were carried out on Annual Financial Report (Annexes 4a and 4b of Financial Agreements), IAs Requests for Funds, IAs payment orders, IA Cash flow statements, Bank statements and IAs Accounting records in the General Ledger.

Furthermore, 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, Quarterly Progress Reports on contracts and payments, Bridge financing documents and Transfer orders, accounting records in the General Ledgers, Financial reports of NFD and IAs for 2024, Register of recoveries

and supporting documents, Financial forecasts and Forecast of likely payment requests, Payment book of IAs.

During the audit, we identified and documented two findings.

The outcome of the audit process is summarized in Final Audit Account Report that provides findings and recommendations which were identified during the audit process in NFD, IA/CFCU and IA/CPA. During this audit engagement we identified two findings in total as follows:

FINDING N°: 1 Incorrect amount of Total Amount Contracted in AFR

Programme: CAP 2016 (037-896) - Annual Financial Report for 2024

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD

By the performed checks of relevant documentation and the accounting records, we determined that amount of Total Amount Contracted did not properly reported in the AFR for Programme CAP 2016 (037-896) for 2024.

By comparing the AFR and the accounting records, we concluded that the total amount contracted were adequately treated in accounting records of IAs. However, it was not correctly presented in the AFR for 2024. Namely, total amount contracted has been presented in the amount less than it should be. The mentioned difference is related to the 6 grant contracts for Programme CAP 2016 (037-896).

Table: Difference related to Total Amount Contracted

Total Amount Contracted			
CAP 2016 (037-896)	A	B	Difference
	Annual Financial Report	Record in accounting system IAs	A-B
EU contribution	13,007,363.49	13,020,678.93	-13,315.44
National contribution	1,591,610.63	1,593,960.41	-2,349.78
Other sources	454,800.79	456,687.62	-1,886.83
Total	15,053,774.91	15,071,326.96	-17,552.05

Recommendation:

The data in the AFR should be presented according to the actual state of affairs, and we consider that this displaying of data in the financial statement is neither accurate nor relevant. Therefore, appropriate adjustments regarding total amount contracted should be made in accordance with the principles of accuracy and completeness.

FINDING N°: 2 Incorrect amount of Total Amount Contracted in AFR**Programme:** CAP 2020 (042-145) - Annual Financial Report for 2024, item No. 4**Level of priority:** Intermediate**Body/-ies concerned by the finding:** NFD

According to the requirements of Annex 4 (a) Financing agreement for CAP 2020 in the field no. 4 Total Amount Contracted the amounts need to be presented by the sources of financing: EU contribution, National contribution and Other sources.

By the performed checks of relevant documentation and the accounting records, we determined that amount of Total Amount Contracted did not properly reported in the AFR for Programme CAP 2020 (042-145) for 2024.

Namely, total amount contracted has been presented in the amount more than it should be. The mentioned difference is related to the other sources of contracted amount for CAP 2020 (042-145).

Table: Difference related to Total Amount Contracted

Total Amount Contracted		
CAP 2020 (042-145)	Annual Financial Report	Correct values
EU contribution	7,138,491.64	7,138,491.64
National contribution	1,259,733.79	1,259,733.79
Other sources	558,356.87	544,356.87
Total	8,956,582.30	8,942,582.30

Recommendation:

The data in the AFR should be presented according to the actual state of affairs, ensuring complete and accurate financial report. Therefore, amount regarding other sources should be corrected.

FINDING N°: 3 Incorrect amount of Total Cost Recognised in AFR**Programme:** CAP 2018 (040-220) - Annual Financial Report for 2024**Level of priority:** Major**Body/-ies concerned by the finding:** CPA and NFD

Reviewing the Annual Financial Report for 2024 it has been determined that financial corrections identified during Audit of Operations have not been taken into account, which is not in accordance with the Framework Agreement, Article 36 - Examination and acceptance of accounts procedures. Namely, in the Final report on Audit of Operations no: 01-908/25-49, from 28th January 2025, AA concluded that costs related for dry assembly works, room construction, temporary facility, ceramic, painting, locksmith and carpentry works (points 1.1.-5.1. of AO no. 5) and ceramics works on the staircase at the entrance of the Epidemiology department of the existing facility of IPH (points 8.1.-8.2. of AO no. 5) are ineligible in total amount of EUR 5,847.93 for CAP 2018 (040-220).

Upon examining the accounting records of CPA and NFD, we determined that no trace of evidence had been spotted, which results in inadequate and inaccurate display of data in the AFR for 2024 regarding the total recognized costs.

Recommendation:

The Audit Authority recommends to:

- the CPA to implement recommendation given in the Final report on Audit of Operations.
- the NF take into account ineligible expenditures identified in the recommendation of the Final report on Audit of Operations.

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

During Audit of Accounts for 2023 performed in 2024, the Follow-up of findings and recommendations from previous audit was performed, and the results of the Follow-up is the constituent part of Audit of Accounts report.

After receiving the responses and the documentation on the fulfilment of recommendations from all bodies, we conducted interviews with the employees responsible for the management and implementation of the operational programme in bodies in which the interview was needed. After analyses and reviewing the submitted documentation, we assessed the status of the individual recommendation with the respective explanation. Results of performed Follow-up are: One out of one finding is closed and given as follows:

During Audit of Accounts for 2023 we gave two finding:

- Incorrect amount of “Total Costs Recognised” in AFR
- Incorrect amount of “Total Amount Disbursed” in AFR

Finding No 1: Incorrect amount of “Total Costs Recognised” in AFR

Programmes: CAP 2017 (039-816); CAP 2018 (2018/040-218 and 2018/040-220); - Annual Financial Report for 2023, item No. 10

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD

By the performed checks of relevant documentation and the accounting records, regarding to the total amount disbursed, total amounts recognized, total amount of open pre-financing and the amount of recoveries, we determined that amounts of total costs recognised were not properly reported in the ARF 1 for Programme CAP 2017/039-816; CAP 2018 2018/040-218 and 2018/040-220 for 2023.

By comparing the AFR 1 and the accounting records, we concluded that the total costs recognised were adequately treated in accounting records of CPA. However, they were not correctly presented in the AFR 1 for 2023. Namely, total costs recognised has been presented in the amount more than it should be. This amount difference is related to the amount of retention money for works contract. The results are presented in the table below:

Financing Agreement contract number	Total Costs Recognized		
	A	B	Difference
CAP 2017 (039-816)	Annual Financial Report	Record in accounting system IA	=A-B
EU contribution	4,672,079.20	4,577,723.92	94,355.28
National contribution	1,446,124.81	1,367,309.87	78,814.94
Total	6,118,204.01	5,945,033.79	173,170.22
CAP 2018 (040-218)	A	B	Difference
	Annual Financial Report	Record in accounting system IA	=A-B
EU contribution	5,826,769.69	5,549,438.85	277,330.84
National contribution	4,220,127.21	3,995,126.16	225,001.05
Total	10,046,896.90	9,544,565.01	502,331.89
CAP 2018 (040-220)	A	B	Difference
	Annual Financial Report	Record in accounting system IA	=A-B
EU contribution	4,207,472.51	3,854,135.73	353,336.78
National contribution	155,488.71	155,488.71	0.00
Total	4,362,961.22	4,009,624.44	353,336.78

Recommendation: Retention money is cost that is incurred and accepted, but not yet paid. In order to ensure complete and accurate display of data in AFR 1, we recommend respecting Article 4 section (5) of the General Conditions of IPA II Financing Agreements (FAs) which lists four conditions to declare costs as “recognized”: they must be (i) incurred, (ii) paid, (iii) accepted and (iv) correspond to actual costs proven by supporting documents.

We consider this **finding closed**. Since the amount from the finding is revised during 2023, finding is not applicable any more.

FINDING N°: 2 Incorrect amount of “Total Amount Disbursed” in AFR

Programme: CAP 2016 (2016/037-896) - Annual Financial Report for 2023, item No. 8

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD

By the performed checks of relevant documentation and the accounting records, regarding to the total amount disbursed, total amounts recognized, total amount of open pre-financing and the amount of recoveries, we determined that “Total Amount Disbursed” was not properly reported in the ARF 1 for Programme CAP 2016 (2016/037-896).

By comparing the AFR 1 and the accounting records, we concluded that “Total Amount Disbursed” were adequately treated in accounting records of CPA. However, they were not correctly presented in the AFR 1 for 2023. Namely, “Total Amount Disbursed” has been presented in the amount less than in accounting records of CPA. Difference in total amount of **5,765.00** is related to the requested recovery funds, but since payment is not executed and paid, pending/requested recovery cannot be excluded from the “Total Amount Disbursed”.

Table: Difference related to Total Amount Disbursed:

Total Amount Disbursed			
CAP 2016 (037-896)	A	B	Difference
	Annual Financial Report	Record in accounting system IA	=A-B
EU contribution	9,631,716.54	9,636,616.79	-4,900.25
National contribution	1,390,927.50	1,391,792.25	-864.75
Other sources	0.00	0.00	0.00
Total	11,022,644.04	11,028,409.44	-5,765.00

Recommendation: In order to ensure complete and accurate annual financial report, we recommend that “Total Amount Disbursed” should represent only payments that were executed and paid. Requested recoveries should be treated as liabilities, since they are not fully recovered/paid.

Since our recommendation is implemented, we consider this *finding closed*.

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

Not applicable.

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

According to the AA's Manual of Procedures "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 general, the follow-up of the audit findings and errors shall be performed annually, and the information provided in the Annual Audit Activity Report. The Follow-up can be performed as a part of another audit engagement, or as a separate activity before issuing the Annual Audit Activity Report and Annual Audit Opinion. Follow-up by AA is defined as a process by which it determines the adequacy, effectiveness, and timeliness of actions taken by management on reported errors and audit findings, including corrective and preventive measures applied, application of any financial adjustments and remedial action plans. AA should ascertain that actions taken on audit findings remedy the underlying conditions.

The same standards for audit evidence shall be applied to follow-up work as those used for documenting original audit work. The results of the Follow-up shall be documented in the "Audit recommendation status report".

In the January 2025 the Audit Authority regularly performed Follow-up of the findings and recommendations given in the course of previous audits.

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

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AUDIT RECOMMENDATION STATUS REPORT – FOLLOW-UP

AUDITEE	<p>National Fund Division/NAO support office; NIPAC office; <i>Implementing Agencies:</i> Central Finance and Contracting Unit (CFCU); Capital Project Administration (CPA); <i>Project Implementation Units of the line ministries:</i> Ministry of Finance; Ministry of Interior; Ministry of Economic Development; Ministry of Ecology, Sustainable Development and Northern Region Development; Ministry of Justice; Ministry of Transport; Ministry of Maritime Affairs; Ministry of Health; Ministry of Social Welfare, Family Care and Demography; Ministry of Labour, Employment and Social Dialogue;</p>
AUDIT REPORT	<p>Final Reports on performed System Audits: <ul style="list-style-type: none"> - CAP 2014, CAP 2016, CAP 2017 and CAP 2018 no 3011-1-06-207/4 from 23.12.2020.; - CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 no 3011-2-06-525/2 from 20.01.2022. and - CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 no 3011-1-06-563/2 from 30.12.2022., - CAP 2016, CAP 2017, CAP 2018 and CAP 2020 no 3011-1-06-24/1 from 29.01.2024. <p>Final Reports on performed Audits on Operations: <ul style="list-style-type: none"> - CAP 2014 no 3011-2-06-2/2 from 20.01.2022.; <p>Final Reports on performed Audits on Accounts: <ul style="list-style-type: none"> - CAP 2014, CAP 2016, CAP 2017, CAP 2018 and CAP 2020 no 3011-4-06-161/3 from 11.03.2024. </p></p></p>
DATE OF AUDIT RECOMMENDATION STATUS REPORT	<p>January 2025 Follow-up as a separate activity before issuing AAARs and AAOs.</p>
SOURCE OF THE UPDATE	<p>For the purpose of carrying out the follow-up we have conducted a set of activities:</p> <ul style="list-style-type: none"> • Based on information we received from NAO/NF on 12th July 2024, during the closure of programme CAP 2014, we closed 2 out of 8 findings. • On 14th January 2025 we sent to NAO/DMS-NF Table with the summary of findings and recommendations from previous performed audits. We requested from NAO/DMS-NF to include into the Tables their Management response on the status of the individual recommendation with the appropriate explanation. We also informed them that they should prepare the evidence on the fulfilment of the individual recommendation which will be provided to us. • On 24th January 2025 we received the information we requested from NAO/DMS-NF.

Audit objectives

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.

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No	Finding	Recommendation	Priority Level/ Body/-ies concerned by the finding/	Status as at January ²	Priority level/ New deadline for implementation																
1.	<p>Lack of staff, recruitment and retention policy</p> <p>(Details: See section 4.1.1 of Final System Audit Report from 20th October 2017)</p> <p>During the audit we determined, based on the internal acts on systematisation and organisation of job positions and WLA that in all bodies of managing and operating structure, dealing with OP - Annual Country Action Programme for Montenegro for the year 2014, the number of permanently employed executors is insufficient. We also noted difficulties in retaining staff who during the work in bodies acquired appropriate knowledge and experience.</p> <p>Envisaged Work post related to IPA jobs by Rulebook, result of WLA/2019 and number of the currently employed on the date of the audit) are given in the table below:</p> <table border="1" data-bbox="163 727 743 1346"> <thead> <tr> <th data-bbox="163 727 285 1000">Auditee</th> <th data-bbox="285 727 373 1000">Envisaged work post related to IPA jobs by Rulebook</th> <th data-bbox="373 727 485 1000">Result of WLA/2019</th> <th data-bbox="485 727 743 1000">Currently employed</th> </tr> </thead> <tbody> <tr> <td data-bbox="163 1000 285 1127">NF/NAO SO</td> <td data-bbox="285 1000 373 1127">13 - including NAO</td> <td data-bbox="373 1000 485 1127">13</td> <td data-bbox="485 1000 743 1127">11 (8- LTEC;3 TEC)</td> </tr> <tr> <td data-bbox="163 1127 285 1276">NIPAC Office</td> <td data-bbox="285 1127 373 1276">12 - Including NIPAC</td> <td data-bbox="373 1127 485 1276">12</td> <td data-bbox="485 1127 743 1276">10 (9 – LTEC; 1-TEC)</td> </tr> <tr> <td data-bbox="163 1276 285 1346">CFCU</td> <td data-bbox="285 1276 373 1346">37 - Including</td> <td data-bbox="373 1276 485 1346">37</td> <td data-bbox="485 1276 743 1346">31 (20-LTEC;11-TEC)</td> </tr> </tbody> </table>	Auditee	Envisaged work post related to IPA jobs by Rulebook	Result of WLA/2019	Currently employed	NF/NAO SO	13 - including NAO	13	11 (8- LTEC;3 TEC)	NIPAC Office	12 - Including NIPAC	12	10 (9 – LTEC; 1-TEC)	CFCU	37 - Including	37	31 (20-LTEC;11-TEC)	<p>We recommend, as urgently as possible, taking necessary measures and accelerating activities with a view to recruiting lacking number of employees which would further influence better and more efficient management and use of IPA funds. In order to prevent outflow of the key employees and problems created by their leave from IPA bodies, it is necessary to develop factually established policy of staff retention. Such policy would improve systems of promotion, award, professional training as well as other aspects of work. Therefore, we recommend necessity of additional efforts in order to establish policy of staff retention which can respond to the expected scope of work and fluctuation of employees.</p> <p><i>*The progress has already been made in the period between Draft and Final Report. The implementation of the recommendation will be further monitored.</i></p>	<p>Intermediate:</p> <p>NIPAC Office, CFCU, CPA, MED</p> <p>Minor:</p> <p>MF/PIU</p>	<p>According to the responses from the auditees and available documentation we conclude following:</p> <p>NIPAC Office</p> <p>Lack of staff is still evident.</p> <p>We will further monitor implementation of the recommendation.</p> <p>Finding remains open, with an intermediate level of priority.</p> <p>CFCU/IA</p> <p>32 job positions out of 40 envisaged in the WLA 2024 are filled. Taking into regard the role of IA in the MCSS we consider this as significant lack of staff.</p> <p>Finding remains open, with an intermediate level of priority.</p> <p>CPA/IA</p> <p>16 job positions out of 20 envisaged in the WLA 2024 are filled. Taking into regard the role of IA in the MCSS we consider this as significant lack of staff.</p> <p>Finding remains open, with an intermediate level of priority.</p> <p>MF/PIU:</p> <p>3 out of 4 job positions envisaged in the WLA 2024 are filled.</p>	<p>Intermediate:</p> <p>NIPAC Office, CFCU, CPA and MED</p> <p>Minor:</p> <p>MF/PIU</p> <p>New deadline for implementation:</p> <p>1 Q 2025</p>
Auditee	Envisaged work post related to IPA jobs by Rulebook	Result of WLA/2019	Currently employed																		
NF/NAO SO	13 - including NAO	13	11 (8- LTEC;3 TEC)																		
NIPAC Office	12 - Including NIPAC	12	10 (9 – LTEC; 1-TEC)																		
CFCU	37 - Including	37	31 (20-LTEC;11-TEC)																		

² Status in accordance with auditor's conclusion.

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		Head of IA						<p>We took into consideration reply of MF and achieved results are highly commendable.</p> <p>We concluded that finding remains open with minor level of priority.</p> <p>MED/PIU:</p> <p>4 out of 5 job positions envisaged in the WLA 2024 are filled.</p> <p>We will further monitor implementation of the recommendation.</p> <p>Finding remains open, with an intermediate level of priority.</p>	
	DPW	39 - Including Direct or (Head of IA)	39	31 (16-LTEC;15-TEC)					
	MF	4 - including SPO	4	1 (LTEC)					
	MSDT	9 - including SPO	9	6 (5-LTEC;1-TEC)					
	MTMA	6 - Including SPO	6	6 (5 - LTEC;1-TEC)					
	MEC	5 - including SPO	5	4 (3-LTEC; 1-TEC)					
2.	<p>IT Policy – Backup of data</p> <p>(Details: See section 4.2.1 of Final System Audit Report from 20th October 2017)</p> <p>On the basis of performed on-the-spot checks and conducted interviews, we have found that archiving and backup of data is not performed in accordance with prescribed procedures. There is no properly defined back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by failures or negligence in storage, transmission, or processing. To mitigate the risk of losing data, the 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>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>Intermediate:</p> <p>All relevant IPA Bodies</p>	<p>According the responses from the auditees and available documentation we conclude following:</p> <p>Although it is obvious that there are some improvements regarding this issue, the situation is still worrying. There are no significant changes or specific results which may lead to mitigation of the risk of losing data.</p> <p>Still, the implementation of recommendation will be monitored.</p> <p>The finding remains open, with intermediate level of priority.</p>	<p>Intermediate:</p> <p>All relevant IPA Bodies</p> <p>New deadline for implementation:</p> <p>1 Q 2025</p>	

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3.	<p>Contingency plan developed</p> <p>(Details: See section 4.2.2 of Final System Audit Report from 20th October 2017)</p> <p><i>According to the Article 34 of the Government Decree for Information security (OG MNE No. 58/10; 55/15), business continuity plan should be developed and approved.</i></p> <p>All bodies Operating Structure and Management structure of IPA II doesn't have contingency plan developed. There is risk for continuity of operations concerning loss of data, absence of individuals, and some other unpredictable situations.</p>	<p>Development of the contingency plan with clear responsibilities and procedures is necessary.</p>	<p>Intermediate:</p> <p>All IPA bodies</p>	<p><i>According to the responses from the auditees and available documentation we conclude following:</i></p> <p><i>As we stated in previous comment, it is obvious that there are some improvements regarding this finding, there are no significant changes or specific results which may lead to mitigation of the risk of losing data.</i></p> <p><i>The finding remains open, with intermediate level of priority.</i></p>	<p>Intermediate:</p> <p><i>All IPA bodies</i></p> <p><i>New deadline for implementation:</i></p> <p>I Q 2025</p> <p>:</p>
4.	<p>Internal audit capacities</p> <p>(Details: See section 4.4.1 of Final System Audit Report from 20th October 2017)</p> <p>During audit we identified that according Rulebook on internal organization and systematization four work posts have been envisaged in IAD in MSDT including the Head of IAD and three auditors. Currently three employees deal with internal audit matters. Head of the IAD and one senior auditor have Decisions on allocation on work posts in this department; Junior auditor has a temporary contract. All of employees which are dealing with internal audit have the adequate certificate for performing internal audit. Beside audit within MSDT which cover inter alia IB for IPA component III (DPW separate body within MSDT), Minister of the MSDT has signed agreements with additional six state bodies to implement internal audit for them.</p> <p>According Rulebook on internal organization and systematization of MTMA four work posts have been envisaged in IAD including the Head of IAD and three auditors. Currently there are two employees within IAD, one senior and one junior auditor. Senior auditor is acting head of the IAD. Both auditors have Decisions on allocation on work posts in this department and adequate certificate for performing internal audit.</p> <p>According Rulebook on internal organization and systematization of Ministry of Finance seven work posts have been envisaged in IAD including Head of IAD and six auditors (NFD, CFCU and Department for European Integration-PIU are under the Ministry of Finance). Currently five auditors have Decisions on allocation on work posts in this Department and adequate certificate for performing internal audit. However, one auditor is on maternity leave and another is working part time (4 hours) which means that just three employees are dealing with internal audit matters (full time). Beside audit within MF, Minister of the MF has signed agreements with additional seventeen state bodies to implement internal audit for them.</p> <p>According Rulebook on internal organization and systematization four work posts have been envisaged in IAD in MEC, including the head of IAD and three auditors. In the IAD is only one auditor employed, with adequate certificate for performing internal audit.</p>	<p>In order to ensure timely and effective execution of internal audit function described in their procedures and plans, our recommendation is related to increasing capacities of internal audit with the aim of increasing coverage of audit areas which has a high impact on implementation of IPA funds which will provide management additional assurance about functioning of the IPA MCSS.</p>	<p>Intermediate:</p> <p>IAD</p>	<p><i>According to the reply, as well as provided documentation, the IAU is still understaffed. 3 of 4 positions are filled.</i></p> <p><i>Bearing in mind above mentioned and scope of activities of IAD, there is still lack of capacities within IAD and this fact may have an impact on the quantity and/or quality in performing audits.</i></p> <p><i>The finding remains open, with intermediate level of priority.</i></p>	<p>Intermediate:</p> <p>IAD</p> <p><i>New deadline for implementation:</i></p> <p>I Q 2025</p>

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	<p>Bearing in mind above mentioned and scope of activities of IAD, there is obvious lack of capacities within IADs in all IPA bodies and this fact may have an impact on the quantity and/or quality of audits that are envisaged in annual audit plans. There is a risk that some of the systems, processes or procedures with high impact on overall system will not be subject of the audit and that managers would not have additional assurance about functioning of their systems nor independent review on effectiveness and efficiency of the system.</p>				
5.	<p>Lack of staff and segregation of duties</p> <p>Details: See section 4.1.2 of Final System Audit Report from 23rd December 2020)</p> <p>According to the Rulebook on internal organization and systematization of the Ministry of Interior, in Directorate for European integration and coordination pre-accession support of EU, 5 working posts are foreseen. By the insight into WLA number of needed employees for 2020 year is 3. The conclusion deriving from the AWP and the WLA are presented in a form of Recruitment Plan. In the period of performing system audit the total number of employees in PIU of Ministry of Interior was 2.</p> <p>Also, since three documents AWP, SAM and QMR are prepared and approved by the same person, supervision is not ensured by applying »four eyes« principle and double signature is not respected.</p> <p>In order to ensure segregation of duties and four eyes principle and considering the needs which are expressed in WLA for 2020, it is necessary to employ staff in accordance with the requirements which are prescribed in Rulebook on Internal Organization and Systematization of the Ministry of Interior.</p>	<p>In order to ensure effective functioning of the PIU and in order to ensure segregation of duties and four eyes principle we recommend taking the measures of filling the vacant posts foreseen in the Rulebook of Internal Organization and Systematization and needs expressed in Work Load Analysis.</p>	<p>Major</p> <p>Ministry of Interior/PIU</p>	<p><i>Based on auditee's response the lack of staff is still a present issue.</i></p> <p><i>According to the submitted documentation only 3 out of 9 positions are filled.</i></p> <p><i>We will continue to monitor the implementation of the recommendation.</i></p> <p><i>Finding remains open, with a major level of priority.</i></p>	<p>Major</p> <p>Ministry of Interior/PIU</p> <p><i>New deadline for implementation:</i></p> <p>I Q 2025</p>
6.	<p>Lack of Staff</p> <p>Details: See section 2.2 of Final Report on Audit of Operation from 20th January 2022</p> <p>The purpose of the contract was, inter alia, procurement, delivery, installation, commissioning, training and warranty for equipment for upgrading 7 existing and establishing 3 new automatic fixed measuring stations for the system for ambient air quality monitoring (one of them is a European Monitoring and Evaluation Programme (EMEP) station.</p> <p>EMEP is the co-operative programme for monitoring and evaluation of the long-range transmission of air pollutants in Europe (in officially 'European Monitoring and Evaluation Programme' = EMEP). It is a scientifically based and policy driven programme under the Convention on Long-range Transboundary</p> <p>Air Pollution (CLRTAP) for international co-operation to solve transboundary air pollution problems.</p>	<p>Having in mind that this station has a special importance we recommend engagement of one employee for the station in Velimlje.</p>	<p>Major/</p> <p>MESDNRD</p>	<p><i>According to the submitted documentation and evidences from MESDNRD, we consider this finding closed.</i></p>	<p>/</p>

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	<p>The Convention on Long-range Transboundary Air Pollution (LRTAP), signed in 1979, is one of the central means for protection of environment.</p> <p>Having in mind above mention it is not necessary to underline the importance of the EMEP station which is located in Velimlje. Also, this station is the only one that kind in Montenegro.</p> <p>Audit Authority performed On the Spot Check Verification (OTSV) in Velimlje with the representatives of the Institute of Hydrometeorology and Seismology of Montenegro having in mind that they have jurisdiction over this station.</p> <p>Namely, in accordance with relevant documentation, equipment which is obtained through the contract is, inter alia, <i>Container for accommodation and stay of employee working in the EMEP station</i>. During the field work, we determined that above mention equipment is installed in Velimlje, but no one is still employed in this station. Bearing in mind that employment procedures take a long time, we suggest starting with this process as soon as possible in order to fulfill this position and in order to respect the provisions from the Contract.</p>				
7.	<p>Lack of audit trail</p> <p>Details: See section 4.1.3 of Final System Audit Report from 30th December 2022</p> <p>By the insight into Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-220 and Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-218 with supporting documents, arrangements with the Central Bank for transferring of EU part of funds based on the DMS orders we have established the following:</p> <p>- Even the DMS orders for transferring EU part of funds were prepared correctly, funds in the amount of 3 844 832.38 received to the Central Bank of Montenegro according to the Request for Funds to the EC for Annual Action Programme for Montenegro for 2018 for Budget line 2018/040-220, were first recorded in the account MF-NF-IPA-CAP 2018 (account of the budget line 2018/040-218) instead of the account MF-NF-IPA-CAP 2018 OBJECTIVE 2 (account of the budget line 2018/040-220). It was corrected the same day, in the way that the funds were transferred from MF-NF-IPA-CAP 2018 to the MF-NF-IPA-CAP 2018 OBJECTIVE 2;</p>	We recommend providing adequate audit trail.	Intermediate/ NFD	Based on relevant reply from NFD, we consider this finding closed .	/

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- By the insight into accounting records, we noticed that there is no audit trail that above mentioned happened.			
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1. Conclusion on audit objectives

During the follow up 6 findings out of 11 were closed. Open findings/recommendations will be follow-up in the forthcoming period.
 During the follow up we have concluded that there was a delay in implementation of the recommendations.

Overview of the number of given and closed findings and recommendations per Reports:

Period	Findings	Closed findings	Open Findings
Final System Audit Reports			
Final Report for 2017	15	10	5
Final Report for 2018	1	1	/
Final Report for 2019	3	3	/
Final Report for 2020	4	3	1
Final Report for 2021	3	2	1
Final Report for 2022	3	2	1
Final Operation Audit Reports			
Final Report for 2019	1	1	/
Final Reports for 2021	2	1	1
Final Reports for 2022	3	3	/
Final Audit of Accounts Reports			
Final Report for 2020	2	2	/
Final Report for 2021	1	1	/
Final Report for 2022	2	2	/

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

During 2024 the AA carried out Follow-up for CAP 2016, CAP 2017, CAP 2018 and CAP 2020 and four Audits of Operations (for CAP 2016, CAP 2017, CAP 2018 and CAP 2020). In the period January 2025 the Audit Authority regularly performed Follow-up (which also includes CAP 2014) of the findings and recommendations given in the course of previous audits.

Regarding the abovementioned, the AA has all necessary elements to express overall assurance on the proper functioning of the Management and Control System.

The assurance on the proper functioning of the Management and Control System is based on the results of the Follow-up.

As a result of the Follow-up, the Management, Control and Supervision Systems established for IPA II CAP 2016, 2017, 2018, 2020 are assessed as „works, but some improvement(s) are needed”. Therefore, it is appropriate to issue an unqualified opinion on the proper functioning of the MCSS.

Based on performed Audits of Operations we have obtained reasonable assurance that the audited expenditure declared are in all material aspects, legal and regular. During the audit, no transaction findings were identified. Therefore, it is appropriate to issue an unqualified opinion on the legality and regularity of expenditure.

The assurance on the accounts is based on the results of the Audit of Accounts as described in section 6.2 of this AAAR. Based on the audit work performed we have obtained reasonable assurance on reliability of the Annual Financial Reports or statements/annual accounts for the accounting year 2024 for: CAP 2016 (2016/037-896), CAP 2017 (2017/040-216 and 2017/039-816), CAP 2018 (2018/040-218 and 2018/040-220) and CAP 2020 (2020/042-145).

Based on the audit conducted, we have obtained reasonable assurance regarding the accuracy of the annual financial statements for the 2024 accounting year for the following: CAP 2016 (2016/037-896), CAP 2017 (2017/040-216 and 2017/039-816), CAP 2018 (2018/040-218 and 2018/040-220), and CAP 2020 (2020/042-145), with the exception of the total contracted amounts and total cost recognized (Section 6.2 of this Report).

Bearing in mind above mentioned, we consider that nature of this findings cannot affect to reasonable assurance on reliability of the AFR for CAP 2016, CAP 20217, CAP 2018 and CAP 2020 for accounting year 2024, therefore, it is appropriate to issue an unqualified opinion.

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

Not applicable.

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

The audit entity announced an improvement in its responses to the identified findings and recommendations in the System Audit Reports. The further implementation of the recommendation will be monitored.

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

Not applicable.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Fund	Reference (CCI)	Programme	A Expenditure declared to the Commission in reference to the year	B Expenditure in reference to the financial year audited for the random sample		C Total number of units in the population	D Number of sampling units for the random sample	E Amount and percentage (error rate) of irregular expenditure in random sample		F Total projected error rate	G Corrections implemented as a result of the total error rate	H=F-G Residual total error rate	GI Other expenditure audited	JH Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%					
	C (2016/037-896)	Annual Country Action Programme for Montenegro for the year 2016	2,320,571.86	850,085.04	36.63%	10	3	0.00	0.00%	0.00%	0.00	0.00	/	/
	C (2017) (2017/039-816)	Annual Country Action Programme for Montenegro for the year 2017	6,108,065.19	2,914,017.10	47.71%	6	2	0.00	0.00%	0.00%	0.00	0.00	/	/
	C (IPA/2018-040-220)	Annual Country Action Programme for Montenegro for the year 2018	6,191,794.19	5,196,567.88	83.93%	7	3	5,847.93	0.11%	6,810.97	0.00	963.04	/	/
	C (2020/042-145)	Annual Country Action Programme for Montenegro for the year 2020	346,408.16	346,408.16	100%	2	2	0.00	0.00%	0.00%	0.00	0.00	/	/