



MONTENEGRO
AUDIT AUTHORITY

Nº: 01-908/26-171
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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 2025

Podgorica, March 2026

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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
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	Instrument for Pre-Accession Assistance
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
MPW	Ministry of Public Works
MF	Ministry of Finance
MTESDNRD	Ministry of Ecology, Sustainable Development and Northern Region Development
MoP	Manual of Procedures
NAO	National Authorising Officer
NAO SO	NAO Support Office
NFD	National Fund Division
NIPAC	National IPA Coordinator
OG MNE	Official Gazette of Montenegro
OS	Operating Structure
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 2025.

In 2025 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 2025 for CAP 2018 (2018/040-220 Objective 2) (it is declared 6,478,540.00€), for CAP 2017 (IPA/2017/040-216 and IPA/2017/039-816) (it is declared 3,089,599.87€) and CAP 2017 (IPA/2017/039-816) (it is declared 2.426.876,43€).

In January 2026 the AA performed Follow-up of the findings and recommendations given in the course of previous audits. In the period February-March 2026 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 Ministry of Public Works (MPW);
 - 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
MPW	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 2025. During 2025 Audit Authority performed Follow-up of the findings and recommendations given in the course of previous system audits and audits of operations for CAP 2017 (in 2025, two audits of operations were carried out) and for CAP 2018.

In the period from January – March 2026 AA performed audit of the Annual Financial Reports for 2025.

With a view to drawing up an Audit Opinion, Audit Authority assessed results of audit activities from the performed follow-up of the findings and recommendations given in the course of previous audits, 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 Opinions.

The Audit Authority submits Annual Audit Activity Report and Annual Audit Opinions to the European Commission and the Government of Montenegro with a copy to the NIPAC and the NAO by 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 2024.

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

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

Personal changes:

- *Ms Maida Gorčević, Minister of European Affairs, has been appointed as NIPAC. (Letter No: 08-908/25-9418 from 2nd April 2025).*
- *Ms Bojana Bošković was appointed as the Secretary of State, within Ministry of European Affairs. Change occurred by Government session held on 16th October 2025.*
- *Ms Majda Adžović was appointed as the Minister of Ministry of Public Works. The appointment was made by the Government session held on 14th April 2025.*
- *Mr Luka Mugoša appointed as Acting Director General of Directorate for implementation of the IPA projects, quality control and realization of the contracts, within of the Ministry of Public Works. Change occurred by Government session held on 10th July 2025.*

- *Ms Sanja Bečanović re-appointed as Acting Director General of Directorate for financing, contracting and implementation EU funds, within of the Ministry of Finance. Change occurred by Government session held on 26th July 2025 and on 19th December 2025.*
- *Ms Ivana Šućur has been appointed as SPO/Acting Director General of the Directorate for EU funds, European integration and International Cooperation, within Ministry of Labour, Employment and Social Dialogue. Change occurred by Government session held on 21st March 2025. The engagement was terminated on 12nd June 2025 and re-appointed during the Government session held on 12nd June 2025 and on 10th December 2025.*
- *Mr Trifun Savić has been appointed as SPO/Director General of Directorate for International Cooperation and EU funds, within Ministry of Ecology, Sustainable Development and Northern Region Development. Change occurred by Government session held on 3rd April 2025. The engagement was terminated on 2nd October 2025 and re-appointed during the Government session held on 30th October 2025.*
- *Ms Emina Mujević-Kara has been appointed as SPO/Acting Director General of the Directorate for European integration, EU Funds and International Cooperation, within Ministry of Social Welfare, Family Care and Demography. Change occurred by Government session held on 10th December 2025.*
- *Ms Dubravka Mihailović has been appointed as Deputy Auditor General, within Audit Authority of Montenegro. Change occurred by Government session held on 6th November 2025.*

Organizational changes:

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

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

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

The changes that occurred in MCSS in 2025 do not have an impact on the audit work.

3. CHANGES TO THE AUDIT STRATEGY

3.1 Details of any changes that have been made to the audit strategy or are proposed, and of the reasons for them. In particular, indicate any change to the sampling method used for the audit of operations (see paragraph 5 below).

Audit Strategy 2025–2027 for the 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 2024. The Auditor General of Audit Authority approved it and sent it to the European Commission, with a copy to National Authorising Officer, on November 28th 2024.

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 2025 - 2027, based on results of performed risk assessment for CAP 2016, CAP 2017, CAP 2018 and CAP 2020 we decided that during 2025 we will not perform System audits. It should be noted that we are in previous 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 2025 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 2025-2027 for the IPA II 2014-2020 for the 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 2025-2027, we decided that during 2025 (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 2025: for CAP 2018 (2018/040-220 Objective 2), for CAP 2017 (IPA/2017/039-816 and IPA/2017/040-216) and for CAP 2017 (IPA/2017/039-816).

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 2018) and Annual Action Programme for Montenegro (CAP 2017) was conducted by the Audit Authority of Montenegro according to Audit Strategy 2025-2027 for 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 2025-2027 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 2017 - 11 contracts from both budget lines), (CAP 2017 - 5 contracts) and (CAP 2018 - 4 contracts) in the reference period 01.01.2025 - 31.12.2025. Therefore, the sampling unit for the Audits of transactions for the year 2025 (reference period) was the project/contract.

National Authorising Officer submitted the Declarations of Expenditure for CAP 2017 to the European Commission N° 4 - May 20th, 2025; Objective 1 (2017/040-216) in amount 1,539,587.60€ and Declaration of Expenditure N° 3 - March 7th, 2025. Objective 2 (2017/039-816) in amount 1,550,012.27€. Value of the population was 3,089,599.87€ for 11 contracts from both budget lines. Therefore, for the declared amount, the materiality level (tolerable error) is 61,792.00€ (2%).

In the reference period, the total amount for CAP 2017 (IPA/2017/039-816) of 2.426.876,43€ for 5 contracts was declared to the European Commission by Statement of Expenditure N° 4 on 10th November 2025. Therefore, for the declared amount, the materiality level (tolerable error) is 48,537.53€ (2%).

The total amount for CAP 2018 (IPA/2018/040-220) for 4 contracts was declared to the European Commission by Statement of Expenditure N° 3 from 20th May, 2025 in the total amount of 6,478,540.00€. Therefore, for the declared amount, the materiality level (tolerable error) is 129,570.80€ (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 2025 (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 2025:

The Audit of Operation CAP 2017 (IPA/2017/040-216; IPA/2017/039-816)

Population contained declared expenditure (cost recognised) for contracts. Value of the population was 3,089,599.87€ for 11 contracts from both budget lines.

Contract N°	Name of the Contract	Expenditure (Costs Recognized for Audit of Operation) – on May 20 th , 2025; March 7 th 2025
Declaration of Expenditure IPA/2017/040-216		
MN 17 IPA EN 01 20 TWL	Development of integrated Air Emissions Inventory tool and Update of Air Emissions Inventory for the period 2011-2018	201,067.07
CFCU/MNE/105	Communicating EU accession and EU assistance in Montenegro III	154,999.00
CFCU/MNE/146	Strengthening the capacities of Directorate for Management Structure for IPA programmes managed under indirect management	80265.74
CFCU/MNE/187	Support to the Customs Administration for the implementation of Customs Decision System (CDS) on national level	275,000.00
MN 17 IPA EC 02 21 TWL	Support to the Customs Administration in preparation for upgrading TARICG EU TARIC latest version and related ITMS subsystems	148,249.79
CFCU/MNE/192	Preparation of the National Waste Management Plan for Montenegro for the period 2022-2026	295,450.00
(CFCU/MNE/188	Contribution to the establishment of the Natura 2000 Network for Montenegro	299,926.00
CFCU/MNE/177	Support to the Interim evaluation of IPA II actions implemented under indirect management	84,630.00
TOTAL		1,539,587.60
Declaration of Expenditure IPA/2017/039-816		
PWA/MNE/IPA II/CAP17/SER/01-8132/1	Technical assistance for capacity support to the transport sector and EU aquis alignment in Montenegro	644,484.86
PWA/MNE/IPA II/CAP17/SER/01-908/21-4474/1	Technical assistance for project preparation of investment in the transport sector in Montenegro Service	596,270.00
PWA/MNE/IPA II CAP 17/SER/01-908/21-560/1	Establishment of a National Maritime Single Window (NMSW)	309,257.41
TOTAL		1,550,012.27
TOTAL from both budget lines		3,089,599.87

Three out of eleven contracts were subject of the audit, which presents 27.27% of the total number of units/operations (population) and 15.35% of total amount of declared costs.

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

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

Contract N°	Name of the Contract	Costs recognized
CFCU/MNE/146	Service contract: Strengthening the capacities of Directorate for Management Structure for IPA programmes managed under indirect management	80,265.74
CFCU/MNE/177	Service contract: Support to the Interim evaluation of IPA II actions implemented under indirect management	84,630.00
(PWA/MNE/IPA II CAP 17/SER/01-908/21-560/1)	Service contract: Establishment of a National Maritime Single Window (NMSW)	309,257.41
TOTAL		474,153.15

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

Population contained declared expenditure (cost recognised) for contracts. Value of the population was 2,426,876.43€ for 5 contracts.

Contract N°	Name of the Contract	Expenditure (Costs Recognized for Audit of Operation) – on November 10 th 2025
Declaration of Expenditure		
PWA/MNE/IPAII/CAP17/SUP/01-908/21-5892/1	Supply of equipment for improving safety of maritime and inland navigation in Montenegro (VTMIS)-LOT1-250,000.00 and LOT2-1,600,000.00	1,425,000.00
PWA/MNE/IPA II/CAP17/SER/01-908/21-4474/1	Technical assistance for project preparation of investment in the transport sector in Montenegro	479,003.92
PWA/MNE/IPA II CAP 17/SER/01-908/21-560/1	Establishment of a National Maritime Single Window (NMSW)	228,013.12
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	38,635.00
PWA/MNE/IPA II/BPMD/01-908/21-5514/1	Reconstruction works of the Cross border railway station in Bijelo Polje	256,224.39
TOTAL		2,426,876.43

Two out of five contracts were subject of the audit, which presents 40.00% of the total number of units/operations (population) and 68.11% of total amount of declared costs.

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

Contract N°	Name of the Contract	Costs recognized
PWA/MNE/IPAII/CAP17/SUP/01-908/21-5892/1	Supply contract: Supply of equipment for improving safety of maritime and inland navigation in Montenegro (VTMIS)-LOT1-250,000.00 and LOT2-1,600,000.00	1.425.000,00
PWA/MNE/IPA II CAP 17/SER/01-908/21-560/1	Service contract: Establishment of a National Maritime Single Window (NMSW)	228.013,12
TOTAL		1.653.013,12

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

The population contained declared expenditure (cost recognised) for contracts. Value of the population was 6,478,540.00 for 4 contracts.

Contract N°	Name of the Contract	Expenditure (Costs Recognized for Audit of Operation) – on February 21 st , 2025
Declaration of Expenditure		
CPA/MNE/IPAII/CAP18/SER/01-908/22-4381/1	Supervision of works on construction of clinic for infectious disease and for dermatovenerology	158,704.70
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	252,685.15
CPA/MNE/IPAII/CAP18/WKS/01-908/22-3577/1	Construction of the clinic for dermatovenerology and clinic for infection disease	5,787,534.42
PWA/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 (one works contract based on PRAG unit price or Fidic Red book conditions) and procurement of the necessary equipment	279,615.73
TOTAL		6,478,540.00

Two out of four contracts were subject of the audit, which presents 50.00% of the total number of units/operations (population) and 93.65% 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
MPW/MNE/IPAII/CAP18/WKS/01-908/22-3577/1	Work contract Construction of the Clinic for Dermatovenerology and Clinic for Infectious Disease	5,787,534.42
MPW/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)	279,615.73
TOTAL		6,067,150.15

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 2025 (for CAP 2017 and CAP 2018).

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

Programme CAP 2017	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
Programme CAP 2017 (2017/040-216) (Objective 1)									
Sector 1: Democracy and Governance	1,539,587.60	0.00	0.00	1,539,587.60	164,895.74	0.00	0.00	164,895.74	
Action 1: EU Integration Facility	1,539,587.60	0.00	0.00	1,539,587.60	164,895.74	0.00	0.00	164,895.74	
Total Objective 1	1,539,587.60	0.00	0.00	1,539,587.60	164,895.74	0.00	0.00	164,895.74	
Programme CAP 2017 (2017/039-816) (Objective 2)									
Sector 4: Transport	1,317,510.37	232,501.90	0.00	1,550,012.27	262,868.79	46,388.62	0.00	309,257.41	
Action 3: EU support for transport development	1,317,510.37	232,501.90	0.00	1,550,012.27	262,868.79	46,388.62	0.00	309,257.41	
Total Objective 2	1,317,510.37	232,501.90	0.00	1,550,012.27	262,868.79	46,388.62	0.00	309,257.41	
TOTAL: Objective 1 + Objective 2	2,857,097.97	232,501.90	0.00	3,089,599.87	427,764.53	46,388.62	0.00	474,153.15	15.35%

Population, expenditure (cost recognized) for the Audit of Operation is 3,089,599.87 €.

No negative items were present in the amounts declared to the Commission during 2025.

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Programme CAP 2017	Costs recognized/Population				Costs recognized/Audited				Audited / Declared expenditure (%)
	EU	NC	Others	Total	EU	NC	Others	Total	
Programme CAP 2017 (2017/039-816) (Objective 2)									
Sector 4: Transport	2,061,698.55	365,177.87	0.00	2,426,876.42	1,405,061.10	247,952.02	0.00	1,653,013.12	
Action 3: EU support for transport development	2,061,698.55	365,177.87	0.00	2,426,876.42	1,405,061.10	247,952.02	0.00	1,653,013.12	
Total Objective 2	2,061,698.55	365,177.87	0.00	2,426,876.42	1,405,061.10	247,952.02	0.00	1,653,013.12	68.11%

Population, expenditure (cost recognized) for the Audit of Operation is 2,426,876.42€.

No negative items were present in the amounts declared to the Commission during 2025.

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	5,742,791.50	735,748.50	0.00	6,478,540.00	5,410,754.00	656,396.15	0.00	6,067,150.15	
Action 5: EU for strengthening the quality and access of health and social services	5,742,791.50	735,748.50	0.00	6,478,540.00	5,410,754.00	656,396.15	0.00	6,067,150.15	
Total	5,742,791.50	735,748.50	0.00	6,478,540.00	5,410,754.00	656,396.15	0.00	6,067,150.15	93.65%

Population, expenditure (cost recognized) for the Audit of Operation is 6,478,540.00 €.

No negative items were present in the amounts declared to the Commission during 2025.

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 2017 (IPA/2017/040-216; IPA/2017/039-816)</i>	
Amount of declared expenditure	3,089,599.87€
No of units in population	11
Value of the sample tested	474,153.15€
Value of the sample tested in %	15.35%
No of units in sample	3
No of units in sample in %	27.27%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (3,089,599.87* 2%)	61,792.00€
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	2.426.876,43€
No of units in population	5
Value of the sample tested	1.653.013,12€
Value of the sample tested in %	68,11%
No of units in sample	2
No of units in sample in %	40,00%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (2.426.876,43* 2%)	48,537.53€
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	6,478,540.00 €
No of units in population	4
Value of the sample tested	6,067,150.15€
Value of the sample tested in %	93,65%
No of units in sample	2
No of units in sample in %	50%
Materiality 2% of expenditure declared in reference period (tolerable misstatement) (6,478,540.00 * 2%)	129,570.80€
Error amount determined by the audit	77,297.99
Error rate	1,27%
Extrapolated error	82,277.46

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

The Audit of Operation CAP 2017 (IPA/2017/040-216; IPA/2017/039-816)

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
Objective 1, 040-216				
MN 17 IPA EN 01 20 TWL	Twinning contract: Development of integrated Air Emissions Inventory tool and Update of Air Emissions Inventory for the period 2011-2018	202,380.41	1,313.34	201,067.07
CFCU/MNE/156	Service contract: Evaluation of the PFM Reform Programme	19,999.00	19,999.00	0.00
CFCU/MNE/168	Service contract: Needs Assessment for the Development of Monitoring System in the Area of Substances of Human Origin	48,000.00	48,000.00	0.00
CFCU/MNE/153	Service contract: Strengthening the Capacities of CFCU Montenegro for Management and Implementation of EU Funds	278,589.66	278,589.66	0.00
CFCU/MNE/105	Service contract: Communicating EU accession and EU assistance in Montenegro III	299,999.00	145,000.00	154,999.00
CFCU/MNE/163	Service contract: Drafting of the main design /technical documentation for the adaptation/reconstruction of premises of Customs Administration of Montenegro	16,440.00	16,440.00	0.00
CFCU/MNE/146	Service contract: Strengthening the capacities of Directorate for Management Structure for IPA programmes managed under indirect management	287,078.93	206,813.19	80,265.74
CFCU/MNE/127	Service contract: Assistance in Translation of the Technical Specifications (Main Design) for Construction of the Clinic for Dermatovenerology and Infectious Diseases	11,000.00	11,000.00	0.00
CFCU/MNE/154	Service contract: Supply of hardware equipment with server licences (for new System for centralized calculation of earnings and new budget planning System)	129,150.00	129,150.00	0.00
CFCU/MNE/165	Service contract: Support to the elaboration of the PAR Strategy 2021-2025	19,990.00	19,990.00	0.00
CFCU/MNE/145	Service contract: Assistance in preparation of TD for works and supervision of the Clinic for Dermatovenerology and Infectious Diseases	19,800.00	19,800.00	0.00
CFCU/MNE/187	Service contract: Support to the Customs Administration for the implementation of Customs Decision System (CDS) on national level	275,000.00	0.00	275,000.00
MN 17 IPA EC 02 21 TWL	Twinning contract: Support to the Customs Administration in preparation for upgrading TARICG EU TARIC latest version and related ITMS subsystems	175,392.15	27,142.36	148,249.79
CFCU/MNE/190	Service contract: Establishing a sustainable knowledge base platform for CFCU	19,930.00	19,930.00	0.00
CFCU/MNE/192	Service contract: Preparation of the National Waste Management Plan for Montenegro for the period 2022-2026	295,450.00	0.00	295,450.00
CFCU/MNE/188	Service contract: Contribution to the establishment of the Natura 2000 Network for Montenegro	299,926.00	0.00	299,926.00
CFCU/MNE/177	Service contract: Support to the Interim evaluation of IPA II actions implemented under indirect management	84,630.00	0.00	84,630.00
CFCU/MNE/193	Service contract: Assistance in translation of the technical specifications (main design) and preparation of tender dossiers for construction and supervision of works of the Centre for Control and Prevention of Infectious Diseases with the Operational Centre for Emergency Situations (EOC)	18,000.00	18,000.00	0.00
CFCU/MNE/Invoice	Review of the main design /technical documentation for the adaptation/reconstruction of premises of Customs Administration of Montenegro	2,000.00	2,000.00	0.00
TOTAL Objective 1		2,502,755.15	963,167.55	1,539,587.60

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Objective 2, 039-816				
Contract N°	Name of the Contract	Costs recognized/ Request for Funds Instalment N° 4	Costs recognized/ Request for Funds Instalment N°3	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 aquis alignment in Montenegro	3,640,341.00	2,995,856.14	644,484.86
Service (PWA/MNE/IPAII/CAP17/SER/01-908/21-4474/1)	Technical assistance for project preparation of investment in the transport sector in Montenegro	1,250,328.42	654,058.42	596,270.00
Service (PWA/MNE/IPAII/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	181,165.00	0.00
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
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	1,972,543.10	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	941,474.00	0.00
Supply (PWA/MNE/IPAII/CAP17/SUP/01-908/21-5892/1)	Supply of equipment for improving safety of maritime and inland navigation in Montenegro (VTMIS)-LOT1-250,000.00 and LOT2-1,600,000.00	0.00	0.00	0.00
Service (PWA/MNE/IPA II CAP17/SER/ 01-908/21-560/1)	Establishment of a National Maritime Single Window (NMSW)	364,626.92	55,369.51	309,257.41
TOTAL Objective 2		8,360,478.44	6,810,466.17	1,550,012.27
TOTAL Objective 1 + Objective 2		10,863,233.59	7,773,633.72	3,089,599.87

Following bodies were covered during the audit:

- Ministry of Finance - PIU
- Ministry of Transport – PIU
- Ministry of Finance – Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) – Implementing Agency
- Ministry of Public Works (MPW) – Implementing Agency
- National Fund Division (NFD).

During the audit, we have no system or transaction findings were identified.

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

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
Service (PWA/MNE/IPA II/CAP17/SER/01-8132/1)	Technical assistance for capacity support to the transport sector and EU aquis alignment in Montenegro	3,640,341.00	3,640,341.00	0.00
Service (PWA/MNE/IPA II/CAP17/SER/01-4474/1)	Technical assistance for project preparation of investment in the transport sector in Montenegro	1,729,332.34	1,250,328.42	479,003.92
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	219,800.00	181,165.00	38,635.00
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
Work (PWA/MNE/IPA II/BPMD/01- 908/21-5514/1)	Reconstruction works of the Cross border railway station in Bijelo Polje	2,228,767.49	1,972,543.10	256,224.39
Supply (PWA/MNE/IPAII/CAP17/SUP/01- 908/21-5468/1)	Supply of Equipment for response to marine pollution incidents	941,474.00	941,474.00	0.00
Supply (PWA/MNE/IPAII/CAP17/SUP/01- 908/21-5892/1)	Supply of equipment for improving safety of maritime and inland navigation in Montenegro (VTMIS)-LOT1-250,000.00 and LOT2-1,600,000.00	1,425,000.00	0.00	1,425,000.00
Service (PWA/MNE/IPA II CAP 17/SER/ 01-908/21-560/1)	Establishment of a National Maritime Single Window (NMSW)	592,640.04	364,626.92	228,013.12
Total		10,787,354.87	8,360,478.44	2,426,876.43

Following bodies were covered during the audit:

- Ministry of Transport – PIU;
- Ministry of Public Works (MPW) – Implementing Agency;
- National Fund Division (NFD).

No system or transaction findings were identified.

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

Cost recognized refers to the following contracts:

Contract N°	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
CPA/MNE/IPAII/CAP18/SER/01-908/22-4381/1	Supervision of works on construction of clinic for infectious disease and for dermatovenerology	244,417.05	85,712.35	158,704.70
CPA/MNE/IPAII/CAP18/WKS/01-908/22-3577/1	Construction of the clinic for dermatovenerology and clinic for infection disease	8,669,539.05	2,882,004.63	5,787,534.42
CPA/MNE/IPAII/CAP18/SUP/01-908/22-5074/1	Procurement, purchase, delivery, installation and training for microbiology equipment	839,864.00	839,864.00	0.00
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	1,072,391.77	819,706.62	252,685.15
CPA/MNE/IPAII/CAP18/SER/01-908/22-4842/1	Supervision of the works on reconstruction/refurbishment of the selected laboratories	34,999.96	34,999.96	0.00
PWA/MNE/IPAII/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
PWA/MNE/IPAII/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)	1,940,676.09	1,661,060.36	279,615.73
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	34,650.00	0.00
TOTAL		12,844,537.92	6,365,997.92	6,478,540.00

Following bodies were covered during the audit:

- Ministry of Health – PIU;
- Ministry of Public Works (MPW)– Implementing Agency;
- National Fund Division (NFD).

During the audit, we did not identify system findings. One transaction finding was identified.

TRANSACTION FINDINGS**System Finding N° 1: Ineligible expenditure**

Operation/Contract: 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: C Eligibility of Expenditure

Level of Priority: Major

Implementation Deadline: Immediately

Responsible Body/ies: MPW/IA

During the review of the contract, subject to this audit, it was concluded that the Special Conditions did not contain provision on Price Revision. Despite the lack of any provisions allowing for it, Price Revision was still paid.

Namely, the contractor, in a letter dated on 10 April 2024, referred to Article 55 of the General Conditions, submitted a Claim for Additional Payment, stating that the contract in question, did not define the method or formula for Price Revision. After the approval of this Claim, both by the Supervisor and later by the CA through Administrative Order N° 9 (dated on 05.06.2024.), the amount of **77,297.99€** (amount of a price revision) was paid to the contractor. The amount was paid from the Contingency line (reserve for unforeseen costs) through Interim Payment Certificate N° 8.

The General Conditions applicable to these contracts explicitly state:

Article 48 – Revision of Prices

48.1. Unless otherwise stipulated in the Special Conditions, and except as provided in Article 48.4, the contract shall be at fixed prices which shall not be revised.

Considering this provision of the General Conditions, and having determined that the Special Conditions neither specify otherwise nor provide any guidance on the matter, we find that the CA committed a significant oversight and breached Article 48 of the General Conditions by paying the contractor **77,297.99€** to which they were not entitled.

Additionally, it should be emphasized that the contingency reserve is not intended to cover Price Revision (i.e., indexation or price adjustments due to inflation and similar factors), unless the contract explicitly permits it, which is not the case here.

Furthermore, it is important to note that, according to all relevant regulatory framework, there are some fundamental principles that apply to procurement and grant procedures which the CA has to respect throughout the procedures, inter alia:

- Principle of Equal Treatment / Equal Opportunity

All interested parties should be treated in the same way, meaning that all tenderers must be afforded equal opportunities when formulating their tenders, which therefore implies that the tenders of all competitors must be subject to the same conditions.

This implies that all tenderers must be given equal opportunities and treated under the same conditions, ensuring a fair and non-discriminatory procurement procedure. If a single party (e.g., the contractor) is allowed a price revision after the contract has been signed, while other bidders are not afforded the same right, this could suggest that the tender conditions were altered “on the fly,” creating an unfair disadvantage for the other participants.

Recommendation:

We recommend to MWP:

- Recover the identified ineligible expenditure in the amount of **77,297.99€**.

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

The total amount for CAP 2018 (IPA/2018/040-220) for 4 contracts was declared to the European Commission by Statement of Expenditure N° 3 from 20th May, 2025 in the total amount of 6,478,540.00€. Therefore, for the declared amount, the materiality level (tolerable error) is 129,570.80€ (2%).

During the audit, one transaction finding was identified. The amount of Ineligible expenditure, identified by the finding in the amount of **77,297.99€**, does not exceed the materiality level (tolerable error) ($6,478,540.00 * 2\% = 129,570.80$).

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 82,277.46€ and it is below the materiality threshold as presented in the table.

N°	Finding N° 1 Ineligible expenditure	Level of importance	Financial impact (EUR)
1	Ineligible costs for contract PWA/MNE/IPAII/CAP18/WKS/01-908/22-3495/1	Major	77,297.99
2	Total		77,297.99
3	Amount of expenditure declared in reference period		6,478,540.00
4	Materiality 2% of expenditure declared in reference period (tolerable misstatement) (6,478,540.00* 2%)		129,570.80
5	Value of the sample tested		6,067,150.15
6	Error rate (2/5*100)		1.27%
7	Extrapolated error (3*6)		82,277.46

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 2016, 2017, 2018 and 2020 submitted to European Commission - DG Near on November 28th 2025, 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 2025, i.e. the accounting year from 1st January to 31st December 2025, issued by NAO on 15th February 2026 (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 Ministry of Public Works (MPW).

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 2025 to EC on 15th February 2026.

This Audit of Accounts covered Annual Financial Report for 2025 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 2025, are presented in the table below:

Annual Audit Activity Report for CAP 2016;2017;2018;2020

Financial/accounting year: 2025

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 Decommittted on closure	Total Amount Disbursed			Total Costs Recognised			Total Open Pre-financing			Recovery context		Bank Balances (EU contribution)
		EU contribution	National contribution	Other sources		EU contribution	National contribution	Other sources	EU contribution	National contribution	Other sources	EU contribution	National contribution	Other sources	Errors/ Irregularities/Fraud	No context	
CAP 2016	2016/037-896	13,020,678.93	1,593,960.41	506,951.62	0,00	12,782,333.86	1,565,110.41	0.00	12,782,333.86	1,565,110.41	497,114.79	0.00	0.00	0.00	5,765.00	123,278.12	205,398.42
CAP 2017	2017/040-216	3,645,978.61	943,852.00	0.00	0,00	3,510,619.76	943,852.00	0.00	3,510,619.76	943,852.00	0.00	0.00	0.00	0.00	0,00	20,064.22	0.00
CAP 2017	2017/039-816	8,989,813.38	2,261,418.22	0.00	0,00	8,702,082.20	2,184,987.21	0.00	8,702,082.20	2,184,987.21	0.00	0.00	0.00	0.00	0,00	0.00	214,034.79
CAP 2018	2018/040-218	11,151,590.66	14,464,211.08	0.00	0,00	8,955,951.72	9,483,252.30	0.00	8,722,929.73	9,356,916.33	0.00	199,786.23	126,336.01	0.00	0,00	146,307.98	789,568.83
CAP 2018	2018/040-220	12,780,000.00	1,956,839.42	0.00	0,00	12,756,598.19	1,940,051.92	0.00	12,756,598.19	1,940,051.92	0.00	0.00	0.00	0.00	0,00	0.00	23,401.81
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	544,356.87	0,00	6,887,825.31	1,215,498.57	0.00	6,521,448.89	1,150,843.92	505,858.68	366,376.42	64,654.65	0.00	0,00	0.00	262,913.37

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 MPW 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 2025.

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 2017 (2017/039-816; 2017/040-2016), CAP 2017 (2017/039-816) and CAP 2018 (2018/040-220).

During 2025, NAO did not submit a request for funds including a “Declaration of expenditure”, for programmes: CAP 2016 (2016/037-896), and CAP 2020 (2020/042-145).

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 01/01/2025 - 31/12/2025. 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 MPW.

During the field work we held meetings with representatives of NFD, CFCU and MPW 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 2025, 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 three 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/MPW. During this audit engagement we identified three findings in total as follows:

FINDING N°: 1

Programme: CAP 2018 (040-220) - Annual Financial Report for 2025

Level of priority: Major

Body/-ies concerned by the finding: MPW and NFD

Finding: Incorrect amount of Total Cost Recognised in AFR

Reviewing the Annual Financial Report for 2025 it has been determined that financial corrections identified during Audit of Operations have not been taken into account.

In the Final report on Audit of Operations no: 01-908/25-663/2, from 30th December 2025 and 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)”, AA concluded that costs related to Price Revision in the amount of **77.297,99EUR** are not eligible.

Namely, the Special Conditions did not contain provision on Price Revision. Despite the lack of any provisions allowing for it, Price Revision was still paid.

Upon examining the accounting records of IA/MPW and NFD, we determined that there is no evidence that an amount of 77.297,99EUR was recorded in according with our recommendation, which results in inadequate and inaccurate display of data in the AFR for 2025 for CAP 2018 (040-220) regarding the total recognized costs.

Recommendation:

The Audit Authority recommends to:

- the MPW 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.

FINDING N°: 2

Programme: CAP 2018 Objective 1 (040-218) - Annual Financial Report for 2025

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD

Finding: Incorrect amount of Programme Budget and Total Amount Contracted in AFR

By the performed checks of relevant documentation and the accounting records, we determined that amount of Programme Budget as well as Total Amount Contracted were not properly reported

in the AFR for Programme CAP 2018 for budget line (040-218) for 2025, part for national contribution.

Namely, total amount in Programme Budget and Total Amount Contracted has been presented in the amount higher than it should be for 678.850,00EUR. The mentioned difference is related to the Contract Supervision of Works for Infrastructure Improvement of Facilities within the Rule of Law and Fundamental Rights, which is not financed under CAP 2018 budget line (040-218).

Table: Difference related to Programme Budget and Total Amount Contracted

Programme Budget			
CAP 2018 (040-218)	A	B	Difference
	Annual Financial Report	Supporting documents	A-B
National contribution	12.945.324,10	12.266.474,10	678.850,00
Total Amount Contracted			
National contribution	14.464.211,08	13.785.361,08	678.850,00

Recommendation:

Appropriate adjustments regarding Programme Budget and Total Amount Contracted should be made in accordance with the principles of accuracy and completeness.

FINDING N°: 3

Programme: CAP 2018 Objective 1 (040-218)

Level of priority: Major

Body/-ies concerned by the finding: CFCU

Finding: Recovery procedures

The contract *CFCU/MNE/207 Delivery and installation of prefabricated Data Center with delivery and installation of equipment – ISO container* is terminated on 20/03/2025.

Contract Value: 365.734,56EUR

Pre-financing guarantee amount: 146.293,82EUR

Pre-financing payment: 146.293,82EUR

Performance guarantee 10% of contracted value

Value of unacceptable supplies: 332.498,84EUR

Value of acceptable supplies: 33.235,72EUR

Recovery of pre-financing: 113.058,13EUR (146.293,82 - 33.235,72)

Payment of performance guarantee: 33.249,88EUR (365.734,56 - 33.235,72)

During the audit engagement, by reviewing the submitted documentation and according to the above-mentioned information we determine the following:

- The beneficiary institution for the above mentioned contract accepted part of supplies in the amount 33.235,72EUR. However, the amount of accepted supplies was not cost recognized by the IA/CFCU and therefore not considered eligible for financing under CAP 2018. Consequently, we consider that the procedure for recovery from national funds

should have been initiated and that the amount of 33,235.72EUR should be recovered from national funds.

- Accounting procedures was not performed adequately regarding the termination of contract and recovery.

Recommendation:

- Initiate and implement the necessary procedures for recovery of the amount 33.235,72EUR from national funds.
- Ensure that the accounting records reflect the actual situation regarding the terminated contract, in order to provide accurate, complete and reliable information.

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 2024 performed in 2025, 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.

During Audit of Accounts for 2024 we gave three findings:

- Incorrect amount of Total Amount Contracted in AFR
- Incorrect amount of Total Amount Contracted in AFR
- Incorrect amount of Total Cost Recognised in AFR

FINDING N°: 1

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

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD

Finding: Incorrect amount of Total Amount Contracted in AFR

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.

Given that the recommendation has been implemented, we consider this **finding to be closed**.

FINDING N°: 2

Programme: CAP 2020 (042-145) - Annual Financial Report for 2024, item No. 4

Level of priority: Intermediate

Body/-ies concerned by the finding: NFD

Finding: Incorrect amount of Total Amount Contracted in AFR

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.

Given that the recommendation has been implemented, we consider this **finding to be closed**.

FINDING N°: 3

Programme: CAP 2018 (040-220) - Annual Financial Report for 2024

Level of priority: Major

Body/-ies concerned by the finding: MPW and NFD

Finding: Incorrect amount of Total Cost Recognised in AFR

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 5,847.93EUR for CAP 2018 (040-220).

Upon examining the accounting records of MPW 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 MPW 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.

During the audit and insight into AFR1 for 2025 the recommendation is not implemented, **finding remains open**.

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 2026 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:

Annual Audit Activity Report for CAP 2016;2017;2018;2020

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); Ministry of Public Works (MPW); <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 Transport; Ministry of Maritime Affairs; Ministry of Health; Ministry of Labour, Employment and Social Dialogue;</p>
AUDIT REPORT	<p>Final Reports on performed System Audits: - CAP 2014 no. 3011-1-06-30/4 from 20.12.2017.; - CAP 2014, CAP 2016, CAP 2017 and CAP 2018 no 3011-1-06-207/4 from 23.12.2020.; - CAP 2016, CAP 2017, CAP 2018 and CAP 2020 no 3011-1-06-24/1 from 29.01.2024. Final Reports on performed Audits on Operations: - CAP 2016 no 01-908/25-91 from 11.02.2025.; - CAP 2017 no 3011-4-06-524/3 from 10.12.2024.; - CAP 2018 no 01-908/25-49 from 28.01.2025.</p>
DATE OF AUDIT RECOMMENDATION STATUS REPORT	<p>January 2026 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"> • On 21st January 2026 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 29th January 2026 we received the information we requested from NAO/DMS-NF.

1. 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.

Annual Audit Activity Report for CAP 2016;2017;2018;2020

Table 1: Follow up for year 2025

No	Finding	Recommendation	Level of priority/ Body/-ies concerned by the finding/	Status as at January ²	Priority level/ New deadline for implementation
1. AUDIT OF OPERATIONS					
1.	<p>Communication between institutions</p> <p>Details: See section 2.1 of Final Report on the Audit of Operations for CAP 2016, on 11/02/2025</p> <p>It should be noted that during the fieldwork, we determinate 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.</p> <p>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.</p> <p>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 Nonkey 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.</p>	<p>We recommend to CPA and MESDNRD: - Considering above mentioned, it is essential to enhance communication and cooperation to facilitate the more effective implementation and management of project(s).</p>	<p><i>Intermediate /</i></p> <p>Ministry of Public Works (IA), Ministry of Ecology, Sustainable Development and Northern Region Development (PIU)</p>	<p>Based on the information provided, we consider this finding to be closed.</p>	
2.	<p>Establishment of PIUs, Nomination of SPO and Recruitment of Staff</p> <p>Details: See section 2.1 of Final Report on the Audit of Operations for CAP 2017, on 10/12/2024</p> <p>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.</p>	<p>We recommend to:</p> <ul style="list-style-type: none"> - 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. 	<p>Major /</p> <p>Ministry of Transport and Ministry of Maritime Affairs</p>	<p>MoT -</p> <p>We consider this finding closed. We will continue to monitor the situation to ensure the PIU's sustainability and effectiveness.</p> <p>MoMA -</p>	<p>Major /</p> <p><i>New deadline for implementation:</i></p> <p>I Q 2026</p>

²Status in accordance with auditor's conclusion.

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	<p>Ministry of Maritime Affairs 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.</p> <p>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.</p> <p>We are aware the institutional changes have contributed to this situation, but they cannot be an excuse for the current state.</p> <p>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.</p>			<p>The finding remains open, as the IPA unit is not yet fully operational and the SPO role is temporary. Recruitment of additional staff is ongoing, and the situation will be monitored until full implementation is achieved.</p>	
3.	<p>Unfinished fence toward village Nedakusi</p> <p>Details: See section 2.1 of Final Report on the Audit of Operations for CAP 2017, on 10/12/2024</p> <p>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.</p>	<p>We recommend to the CPA to:</p> <ul style="list-style-type: none"> - execute the unfinished works i.e. completion of construction of fence toward village of Nedakusi. 	<p>Major / Ministry of Public Works/IA</p>	<p>Based on the submitted response and taking into account the facts presented, we remain of the view that this issue still needs to be resolved. Therefore, the finding remains open.</p>	<p>Major / <i>New deadline for implementation:</i> I Q 2026</p>
4.	<p>Principles of Contracting</p> <p>Details: See section 2.1 of Final Report on the Audit of Operations for CAP 2018, on 28/01/2025</p> <p>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</p>	<p>We recommend CPA and Ministry of Health to:</p> <ul style="list-style-type: none"> - develop a realistic and sustainable procurement plan. This, along with an accurate budget, will ensure efficient resource management and help prevent cost overruns. 	<p>Major / Ministry of Public Works/IA, Ministry of Health/PIU</p>	<p>Based on the information provided, we consider this finding to be closed.</p>	

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<p>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.</p> <p>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...".</p> <p>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/IPWA/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.</p> <p>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.</p> <p>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</p>				
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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>				
5.	<p><i>Unsafe drinking water</i></p> <p>Details: See section 2.1 of Final Report on the Audit of Operations for CAP 2018, on 28/01/2025</p> <p>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). 13 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.</p>	<p>We recommend to the CPA:</p> <ul style="list-style-type: none"> - resolve water issues in the new building of the IPH to ensure the healthy water, which is essential for functioning. 	<p><i>Major / Ministry of Public Works/IA</i></p>	<p>Based on the information and supporting evidence provided, we consider this finding to be closed.</p>	

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<p>6.</p>	<p>Visibility Requirements</p> <p>Details: See section 2.1 of Final Report on the Audit of Operations for CAP 2018, on 28/01/2025</p> <p>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.</p> <p>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 centers, 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...”</p>	<p>We recommend to the CPA:</p> <p>- 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’.</p>	<p>Major / Ministry of Public Works/IA</p>	<p>Based on the information and supporting evidence provided, we consider this finding to be closed.</p>	
<p>7.</p>	<p>Amendment of the Financial Agreement</p> <p>Details: See section 2.1 of Final Report on the Audit of Operations for CAP 2018, on 28/01/2025</p> <p>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...”</p> <p>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.</p> <p>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</p>	<p>We recommend to the NIPAC Office to:</p> <p>- update changes in the Financial Agreement and all action documents which occurred by introduction of the national co-financing for health sector.</p>	<p>Major / NIPAC Office</p>	<p>Based on the submitted response and supporting evidence, we consider that no actions have been taken in relation to our recommendation.</p> <p>Therefore, the finding remains open.</p>	<p>Major / New deadline for implementation: 1 Q 2026</p>

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	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.				
8.	<p>Ineligible expenditure</p> <p>Details: See section 2.2 of Final Report on the Audit of Operations for CAP 2018, on 28/01/2025</p> <p>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:</p> <p>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.</p> <p>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).</p> <p>These expenditures were identified as ineligible bearing in mind that they were not foreseen by Tender Documentation of the contract.</p> <p>Having in mind above mention, we consider the cost of EUR 5,847.93 ineligible.</p>	<p>We recommend to CPA:</p> <p>- Recover the identified ineligible expenditure in the amount of EUR 5,847.93.</p>	<p>Major /</p> <p>Ministry of Public Works/IA</p>	<p>Based on the information provided, the Audit Authority maintains the view that this represents an ineligible cost and the finding remains open.</p>	<p>Major /</p> <p><i>New deadline for implementation:</i></p> <p>I Q 2026</p>
2. SYSTEM AUDITS					
1.	<p>Lack of staff, recruitment and retention policy</p> <p>(Details: See section 4.1.1of 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</p>	<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</p>	<p>Intermediate /</p> <p>NIPAC Office, CFCU/IA, MPW/IA, Ministry of Economic Development (MED)</p> <p>Major:</p>	<p>According the responses from the auditees and available documentation we conclude following:</p> <p>NIPAC Office:</p> <p>14 job positions out of 23 envisaged in the WLA 2025 are filled. Lack of staff is still evident.</p>	<p>Intermediate /</p> <p>NIPAC Office, CFCU and MPW</p> <p>Minor:</p> <p>MF/PIU</p> <p><i>New deadline for implementation:</i></p>

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<p>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"> <thead> <tr> <th>Auditee</th> <th>Envisaged work post related to IPA jobs by Rulebook</th> <th>Result of WLA/2019</th> <th>Currently employed</th> </tr> </thead> <tbody> <tr> <td>NF/NAO SO</td> <td>13 - including NAO</td> <td>13</td> <td>11 (8- LTEC;3 TEC)</td> </tr> <tr> <td>NIPAC Office</td> <td>12 - Including NIPAC</td> <td>12</td> <td>10 (9 – LTEC; 1-TEC)</td> </tr> <tr> <td>CFCU</td> <td>37 - Including Head of IA</td> <td>37</td> <td>31 (20-LTEC;11-TEC)</td> </tr> <tr> <td>CPA</td> <td>39 - Including Director (Head of IA)</td> <td>39</td> <td>31 (16-LTEC;15-TEC)</td> </tr> <tr> <td>MF</td> <td>4 - including SPO</td> <td>4</td> <td>1 (LTEC)</td> </tr> <tr> <td>MESDNRD</td> <td>9 - including SPO</td> <td>9</td> <td>6 (5-LTEC;1-TEC)</td> </tr> <tr> <td>MED</td> <td>5 - including SPO</td> <td>5</td> <td>4 (3-LTEC; 1-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 Head of IA	37	31 (20-LTEC;11-TEC)	CPA	39 - Including Director (Head of IA)	39	31 (16-LTEC;15-TEC)	MF	4 - including SPO	4	1 (LTEC)	MESDNRD	9 - including SPO	9	6 (5-LTEC;1-TEC)	MED	5 - including SPO	5	4 (3-LTEC; 1-TEC)	<p>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>MF/PIU</p>	<p>We will further monitor implementation of the recommendation. Finding remains open, with an intermediate level of priority.</p> <p>CFCU/IA:</p> <p>31 job positions out of 40 envisaged in the WLA 2025 are filled. Taking into regard the role of IA in the MCSS we consider this as significant lack of staff. Finding remains open, with an intermediate level of priority.</p> <p>MPW/IA:</p> <p>15 job positions out of 19 envisaged in the WLA 2025 are filled. Taking into regard the role of IA in the MCSS we consider this as significant lack of staff. 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 2025 are filled. We have taken into consideration MF’s reply, and it has been established that there have been no significant changes compared to the previous period. Therefore, the finding remains open with a minor level of priority.</p>	<p>I Q 2026</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)																																		
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MED	5 - including SPO	5	4 (3-LTEC; 1-TEC)																																		

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				<p>MED/PIU:</p> <p>Based on the information and supporting evidence provided, we consider this finding to be closed.</p>	
2.	<p>IT Policy - Backup of data</p> <p>(Details: See section 4.2.1 of Final 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><i>Intermediate /</i></p> <p>All relevant IPA Bodies</p>	<p>Even though there have been some positive developments, the problem persists, with no concrete actions or verifiable outcomes in place to minimize the risk of data loss.</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><i>New deadline for implementation:</i></p> <p>1 Q 2026</p>
3.	<p>Contingency plan developed</p> <p>(Details: See section 4.2.2 of Final 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><i>Intermediate /</i></p> <p>All relevant IPA Bodies</p>	<p>Even though there have been some positive developments, the problem persists, with no concrete actions or verifiable outcomes in place to minimize the risk of data loss.</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><i>New deadline for implementation:</i></p> <p>1 Q 2026</p>
4.	<p>Internal audit capacities</p> <p>(Details: See section 4.4.1 of Final 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</p>	<p>In order to ensure timely and effective execution of internal audit function described in their procedures and plans, our recommendation is related</p>	<p><i>Intermediate /</i></p> <p>Internal Audit Divisions</p>	<p>According to the reply, as well as provided documentation, the IAU is still understaffed. 3 of 4 positions are filled.</p>	<p>Intermediate</p> <p>IAD</p>

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	<p>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>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>	<p>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>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.</p> <p>The finding remains open, with intermediate level of priority.</p>	<p><i>New deadline for implementation:</i></p> <p>I Q 2026</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</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</p>	<p>Major /</p> <p>Ministry of Interior Affairs/PIU</p>	<p>Based on the submitted evidence and responses, AA concluded that improvements had been achieved compared to the initial state.</p> <p>However, there is still a</p>	<p>Intermediate /</p> <p>Ministry of Interior Affairs</p>

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	<p>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>foreseen in the Rulebook of Internal Organization and Systematization and needs expressed in Work Load Analysis.</p>		<p>significant lack of capacity within the unit.</p> <p>The finding remains open, with intermediate level of priority.</p>	<p><i>New deadline for implementation:</i></p> <p>I Q 2026</p>
6.	<p>Reconciliation procedures</p> <p>Details: See section 4.1.1 of Final System Audit Report from 29th January 2024</p> <p>Based on the insight into submitted documentation for reconciliations procedures and sample form IAs and DMS, reconciliations were performed adequately and timely.</p> <p>Nevertheless, some minor deficiencies were determined.</p> <p>- Implementing Agencies (CFCU and CPA) do not split the reconciliation data per budget lines within the same FA, during monthly reconciliations, and it is not clear to which budget line data refers.</p> <p>- DMS used the same Annex 8 – Checklists for reconciliation – MoP – Chapter Accounting, for more than one FA.</p> <p>In line with the principles of sound financial management, the reporting under the programme, including the financial data, should be accurate and reliable. When one Financing Agreement covers several objectives, the reporting should be done per objective as the different objectives are financed by different funding sources (i.e. coming from different budget lines). Therefore, accurate financial data at the level of objective should be provided by the Management and Operating Structure.</p>	<p>- We recommend to IAs, in future, to split the data per FA and budget lines while preparing reconciliation documents.</p> <p>- We recommend to DMS, in future, to prepare separate CLs per FA and budget lines while preparing reconciliation documents.</p>	<p><i>Minor /</i></p> <p>DMS, Ministry of Public Works and CFCU</p>	<p>Based on submmitted response, as reconciliation procedures were still not consistently performed per Financing Agreement, AA will continue to monitor the implementation of the recommendation. The finding remains open with minor level of priority.</p>	<p><i>Minor /</i></p> <p>DMS, Ministry of Public Works and CFCU</p> <p><i>New deadline for implementation:</i></p> <p>I Q 2026</p>
7.	<p>Inadequate internal organization of Finance and Accounting Unit</p> <p>Details: See section 4.1.1 of Final System Audit Report from 29th January 2024</p> <p>Based on the insight into submitted documentation during the audit</p>	<p>- We recommend ensuring the position of at least one more Financial Controller in the Rulebook on Internal Organization and Systematization and performing the</p>	<p><i>Intermediate /</i></p> <p>Ministry of Public Works/IA</p>	<p>Based on the information and supporting evidence provided, we consider this finding to be closed.</p>	

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	<p>performed, we determined the following:</p> <ul style="list-style-type: none"> - In the Rulebook on internal organization and systematization of the CPA envisaged number of work post in the Finance and Accounting Unit is three: Head of Unit, Financial controller and accountant. Having in mind overall responsibilities of CPA as IA related to IPA perspective II as well as IBFM to IPA perspective III, we consider that envisaged number of work post for Financial controller is not enough, which can have a great impact on the quality and continuity of business operations, e.g. adequate substitution policy cannot be ensured. - Additionally, pursuant to Exception from the standard procedure exclusion of financial control 2 was introduced in the financial department of the CPA. Deputy of NAO approved this exception in March 2022. According to the MoP procedures, in case of exceptions due to procedure failure/incompleteness, the procedure for modification of the MOP should apply. In urgent and duly justified cases, when there is not enough time for the MOP modification and the activity/process needs to be approved without any delay (e.g. deadline etc.), the procedure for requesting and recording exceptions should be followed and then the relevant part of the MOP shall be modified accordingly. <p>Since this exception was approved in March 2022, we think that there was enough time to adjust procedures.</p> <p>Also, we consider that exception related to exclusion of controls of FC and just verification and approval of performed controls, without comments or justification by the Head of FD / Head of Sector for the realization of IPA project/Head of IA CPA can have an impact on the quality of the performed controls.</p> <ul style="list-style-type: none"> - Additionally, the position of the Head of the Sector for the realization of IPA projects is currently vacant. 	<p>recruitment procedure.</p> <ul style="list-style-type: none"> - We recommend filling the vacancy position of the Head of the Sector for the realization of IPA projects. 			
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Table 2: Summary findings per Reports

Period	Findings	Closed findings	Open Findings
Final Operation Audit Reports			
Final Report for 2024	8	4	4
Final System Audit Reports			
Final Report for 2017	4	/	4
Final Report for 2019	1	/	1
Final Report for 2023	2	1	1

2. Conclusion on audit objectives

The issues rose in the audit have been adequately addressed. During the follow up we have noted that the issues rose in the audit have been adequately addressed.

The 5 out of 15 findings and recommendations are closed:

- From System Audit Reports 1 out of 7 findings is closed.
- From Operation Audit Report 4 out of 8 findings are closed.
- From Audit of Accounts Reports, there were no findings, so no follow-up recommendations were issued.

Open findings/recommendations will be follow up in the forthcoming period.

- The audit report recommendations are implemented in a timely manner.

During the follow up we have concluded that there was a delay in implementation of the recommendations, which can influence on the annual audit opinion.

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 2025 the AA carried out Follow-up for CAP 2016, CAP 2017, CAP 2018 and CAP 2020 and three Audits of Operations (for CAP 2017 and CAP 2018). In the period January 2026 the Audit Authority regularly performed Follow-up 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 audits, one transaction finding was identified. The amount of Ineligible expenditure, identified by the finding, does not exceed the materiality level (tolerable error), 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 2025 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 2025 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 2025, 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.

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10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Fund	Reference (CCI)	Programme	Expenditure declared to the Commission in reference to the year	B		C	D	E		F	G	H=F-G	GI	JH
				Expenditure in reference to the financial year audited for the random sample	%			Amount	%					
				Amount	%			Amount	%	%				
	C 2017 (2017/040-216 and 2017/039-816)	Annual Country Action Programme for Montenegro for the year 2017	3,089,599.87	474,153.15	15.35%	11	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	2.426.876,43	1.653.013,12	68.11%	5	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	6,478,540.00	6,067,150.15	93.65%	4	2	77,297.99	1.27%	82,277.46 1.27%	0.00	82,277.46 1.27%	/	/