MONTENEGRO
AUDIT AUTHORITY

Nº: 01-908/25-162
Date: 14th March, 2025

ANNUAL AUDIT ACTIVITY REPORT

OF THE AUDIT AUTHORITY FOR

IPA II 2014-2020 CROSS-BORDER COOPERATION PROGRAMME
"MONTENEGRO – ALBANIA"

FOR THE PERIOD
1st JANUARY 2024 – 31st DECEMBER 2024

Podgorica, March 2025

Contents

List of abbreviation

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
AMG	Annual Management Guarantee
AWP	Annual Work Plan
CA	Contracting Authority
CAAT	Computer Assisted Auditing Techniques
CB	Control Body
CBC	Cross-border cooperation
CFCU	Central Finance and Contracting Unit
DMS	Directorate for Management Structure
EC	European Commission
ERF	Exception Request Form
ETCP	European Territorial Cooperation Programmes
EU	European Union
EUD	Delegation of the European Union
FA	Financial Agreement
GoA	Group of Auditors
HOS	Head of Operating Structure
IA	Implementing Agency
ICF	Internal Control Framework
IPA II	Instrument for Pre-Accession Assistance II perspective
ISA	International Standards on Auditing
JTS	Joint Technical Secretariat
MCSS	Management, Control and Supervision System
MF	Ministry of Finance
MoP	Manual of Procedures
MS	Management Structure
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
OTSC	On-the-spot check
PLCP	Programme level control procedures
SASPAC	State Agency of Strategic Programming and Assistance Coordination
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 European Union funds ("*Official Gazette of Montenegro*" Nº 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 the Article 3 of Law on Audit of EU funds, the Audit Authority is functionally and operationally independent of all actors in EU funds management and control system.

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

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

The Audit Authority is responsible for verifying:

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

The Audit Authority of Montenegro is responsible for the performance of audit tasks in respect of the IPA II 2014-2020 Cross-Border Cooperation Programme "Montenegro-Albania" (C (2014) 9352). It has been assisted by the Group of Auditors (GoA) composed of representatives by the Audit Authority of Montenegro and Audit Agency for the EU - Accredited Assistance Programmes of Albania.

The Audit Authority is obliged to draw up Annual Audit Activity Report (AAAR) and Annual Audit Opinion (AAO) following the model set out in Annexes D and E of the Framework Agreement for IPA II.

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

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

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

In the period June 2024 – January 2025 Audit Authority performed system audit of functioning of Management, Control and Supervision System established for implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania". Also, the follow up of the findings and recommendations given in the course of previous audits was included in the system audit engagement.

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania", as well as in accordance with adopted Audit Strategy for period 2024-2026 and results of performed risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

- **National Fund**: Control Activities;
- **NAO Support Office**: Risk Management, Information and Communication;
- **CA/CFCU**: Risk Management, Control Activities, Information and Communication;
- **Control Body**: Risk Management, Control Activities, Information and Communication.

During February 2025 the Audit Authority performed follow-up of the findings and recommendations given in the Final reports of audits of operations and audits of accounts conducted in period 2017-2023. Follow-up was performed as separate activity before issuing the AAAR and the AAO.

Bearing in mind that no expenditures were declared during the year 2024, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2024.

At the end of February and beginning of March 2025, Audit Authority performed audit of the annual financial reports for the year 2024 and assessment of the Management declaration for the respective Programme.

NAO submitted Annual Financial Report for 2024 on 14th February 2025.

The amounts declared in the Annual Financial Report for 2024 are presented in the table below:

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		Next 12 months
CBC MNE-ALB 2016	2016/038-174	1.436.370,05	0,00	1.436.370,05	254.097,29	0,00	0,00	168.992,85	N/A
CBC MNE-ALB 2017	2017/038-175	999.974,67	0,00	999.974,67	176.466,10	0,00	0,00	51.282,77	N/A
CBC MNE-ALB 2018	2018/041-468	1.240.463,78	0,00	471.761,59	84.367,96	768.702,19	0,00	314.675,70	408.573,14
CBC MNE-ALB 2019	2019/041-470	293.229,60	0,00	32.267,75	5.694,31	260.962,85	0,00	1.066.770,40	127.080,16
CBC MNE-ALB 2020	2020/041-471	817.565,81	0,00	0,00	0,00	817.565,81	0,00	406.434,19	0,00

During the audit AA verified whether the Annual Financial Reports/Financial Statements give a true and fair view as well as the completeness, accuracy and veracity of the annual financial reports or statements and the underlying annual accounts.

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

The Annual Audit Activity Report covers the Cross-Border Cooperation Action Programme "Montenegro-Albania" for the year 2014 (2014/037-593), the Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2015-2017 (2015/038-158, 2016/038-174 and 2017/038-175) and Cross-Border Cooperation Action Programme "Montenegro-Albania" for the years 2018-2020 (2018/041-468, 2019/041-470 and 2020/041-471) which provide assistance for cross-border cooperation in the thematic area spelled out in the IPA II 2014-2020 CBC Programme "Montenegro – Albania" (C(2014) 9352).

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

- National IPA Coordinators of both countries;
- The National Authorising Officer of Montenegro;
- The Management Structure of Montenegro (National Fund and NAO Support Office);
- The Operating Structure (OS) of Montenegro composed of: Head of the Operating Structure (Montenegrin HOS), Cross-border Cooperation Body (Montenegrin CBC Body) and Contracting Authority (CA/CFCU). The first two are located in the Directorate for European Territorial Cooperation within Ministry of European Affairs. Contracting Authority is located in the Montenegrin Ministry of Finance - Directorate for Finance and Contracting of the EU Assistance Funds (CFCU);
- the Operating Structure (OS) of Albania composed of: Head of the Operating Structure (AL HOS) and Cross-border Cooperation Body (AL CBC Body) which are located in the State Agency of Strategic Programming and Assistance Coordination (SASPAC);
- Control Body (AL CB) placed in the Ministry of Finance of Albania.

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

To prepare the Annual Audit Activity Report, the Audit Authority processes, summarises and assesses the findings and recommendations included in the final reports on performed audits and carries out a follow-up to assess the time proportional implementation of audit recommendations.

The Annual Audit Activity Report sets out, inter alia, deficiencies found in the management, control and supervision systems and corrective measures taken or planned by the NAO/NAO Support Office, National Fund and/or the operating structures concerned, and details of any substantial changes in the management and control systems.

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the audits of management, control and supervision system performed during 2024, result of follow up of the findings and recommendations, results of audit of annual financial reports for 2024 and assessed the consistency of the management declaration with regard to performed audit work. Audit of operation was not performed during 2024 since there were no declared expenditures by NAO.

Based on the available information, final audit reports and follow up activities the Audit Authority prepares Annual Audit Activity Report and Annual Audit Opinion.

The Annual Audit Activity Report and Annual Audit Opinion have been submitted to the European Commission and Government of Montenegro with a copy to the NIPAC and NAO by 15th March each year.

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

2.1 Details of any substantial changes in the management and control systems, and confirmation of its compliance with Article 7 of Commission Implementing Regulation (EU) No 447/2014 based on the audit work carried out by the audit authority under Article 12 of Commission Implementing Regulation (EU) No 447/2014

During 2024 NAO informed the European Commission and Audit Authority about substantial and planned changes in the system. The following changes occurred in 2024:

2.1.1 Changes in the MCS in Montenegro since last Annual Audit Activity Report

- **National IPA Coordinator**

At the session held on 18th January 2024, the Government of Montenegro gave its consent to the proposal regarding the appointment of Mr Bojan Božović, new State Secretary in the Ministry of European Affairs, on the position of National IPA Coordinator.

Deputy NAO informed European Commission and Audit Authority on these personal changes on 27th February 2024 (Letter Nº: 08-908/24-951).

Mr. Božović performed the function of NIPAC until the Government reorganization on 23rd July, after which the position remained vacant until 6th February 2025, when the Government appointed Ms Maida Gorčevič, Minister of European Affairs, as the National IPA Coordinator.

- **Deputy National IPA Coordinator**

At the session held on 18th July 2024, the Government of Montenegro gave its consent to the proposal regarding the appointment of Mr Bojan Vujović as the General Director of the Directorate for coordination EU financial assistance within Ministry of European Affairs /Deputy NIPAC.

- **National Authorising Officer**

The mandate of Ms Ana Raičević as the Secretary General in the Ministry of Finance and National Authorising Officer was terminated at the Government session held on 2nd February 2024. The function of NAO was performed by Ms Anja Amidžić, Deputy NAO until 8th February 2024, when the Government of Montenegro appointed Ms Milica Adžić, the State Secretary in the Ministry of Finance, as the National Authorising Officer.

Deputy NAO informed European Commission and Audit Authority on these personal changes on 27th February 2024 (Letter Nº: 08-908/24-951).

- **Head of Directorate for Management Structure/Deputy National Authorising Officer**

The mandate of Ms Anja Amidžić as the Acting Director General of Directorate for management of the EU pre-accession funds structure was terminated at the Government session held on 11th July 2024. On the same session, the Government of Montenegro appointed Mr Velibor Damjanović as a new Director General of Directorate for management of the EU pre-accession funds structure/ Deputy National Authorising Officer.

NAO informed European Commission and Audit Authority on these personal changes on 19th July 2024 (Letter Nº: 08-908/24-366/1)

- **Head of NAO Support Office**

Ms Ivana Ćupić was appointed as Head of NAO Support Office in August 2024.

2.1.2 Changes in the MCS in Albania since last Annual Audit Activity Report

During 2024, the following changes occurred in the Albanian Operating structure:

- **National IPA Coordinator**

Ms Eridana Cano has been appointed as the General Director of State Agency for Strategic Planning and Aid Coordination (SASPAC) and National IPA Coordinator of the Republic of Albania with Prime Minister order no. 153 dated 12th August 2024.

Audit Authority was informed about this change by e-mail sent by Montenegrin OS on 26th August 2024.

- **Head of Operating Structure and Head of CBC Body**

The position of the Director of the Directorate of Convergence and Cohesion with EU within SASPAC and Head of Operating Structure is vacant.

Mr. Rando Kote is appointed with internal order no. 255, on 7.10.2024 as the Head of Unit/Sector for Territorial Cooperation in the Directorate of Convergence and Cohesion with EU and Head of CBC Body.

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

The changes that occurred in MCSS in 2024 have been communicated to the European Commission and the Audit Authority. Changes have been assessed by Audit Authority and we can confirm their compliance with Article 7 of Commission Implementing Regulation (EU) Nº 447/2014.

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

3. CHANGES TO THE AUDIT STRATEGY

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

The Audit Strategy for IPA II 2014-2020 CBC Programme "Montenegro – Albania" was prepared and submitted to the European Commission with a copy to the NAO on 29th November 2023. The Audit Strategy was prepared on a tri-annual basis for period 2024-2026 following the model in Annex G of Montenegrin Framework Agreement and approved by General Auditor after having obtained the opinion of GoA members.

The Audit Strategy has not been changed in the reference period to which the Annual control report relates.

4. SYSTEMS AUDITS

4.1. Details of the bodies that have carried out system audit

The audit body that has carried out system audit is Audit Authority of Montenegro. The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of European Union funds ("Official Gazette of Montenegro" Nº 14/12, 54/16, 37/17 and 70/17). Audit Authority of Montenegro is responsible for carrying out the function of the Audit Authority for IPA II 2014-2020 CBC Programme "Montenegro - Albania", in line with the functions and responsibilities set out in Clause 5 of Annex A to the Framework Agreement.

Since the Audit Authority does not have the authorisation to directly carry out its functions in the whole territory covered by CBC Programme "Montenegro – Albania", it is assisted by Group of auditors comprising a representative of Audit Authority of Montenegro and the Audit Agency for the EU Accredited Assistance Programmes of Albania. The Audit Agency for the EU-Accredited Assistance Programmes of Albania is an independent body established by Law Nº 90/2016 "On the organisation and functioning of the Audit Agency for the EU-Accredited Assistance Programmes in the Republic of Albania".

4.2 Summary table of the audits carried out, with the indication of the authorities/bodies audited, the assessment of the key requirements for each body, issues covered and comparison to the audit planning

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow- up (closed /or not)
01.08.2023. - 31.12.2024.	IPA II 2014-2020 Cross-Border Cooperation Programme Montenegro-Albania (C (2014) 9352) *CRIS Nº:* 2014/037-593 2015/038-158 2016/038-174 2017/038-175 2018/041-468 2019/041-470 2020/041-471	Audit Authority of Montenegro + Goa members	1.DMS (NFD/NAO SO) 2.CFCU 3.CB + Follow up in all bodies within MCSS of the IPA II 2014-2020 CBC Programme Montenegro-Albania	14.06.2024. - 31.01.2025.	-2(c) Fraud risk – DMS, CFCU, CB; -2(d) Identification and assessment of changes affecting the system of internal controls - DMS, CFCU, CB; -3(a) Selection and development of control activities - DMS, CFCU, CB; -4(a) Information to support functioning of internal controls– DMS, CFCU, CB; -4(b) Internal communication- DMS, CFCU, CB; -4(c) External communication – DMS, CFCU, CB - Follow up of open findings from previous audits - all bodies within MCSS	*Findings related to Montenegro* 1. Non-compliance with procedures prescribed in the Manual of Procedures – CFCU; 2. Failure to organize meetings with the Control Body – CFCU; *Findings related to Albania* 1. Lack of Involvement of the Control Body in the Preparation of the Communication and Visibility Plan – HOS/CBC Body ALB, CB; *Audit conclusion:* Category 2 – Works, but some improvements are needed. For more details please refer to the point 4.4 of this report.	-	-	Not closed

Based on level of implementation of IPA II 2014-2020 CBC Programme "Montenegro-Albania" and all collected information and documentation, as well as in accordance with adopted Audit Strategy for period 2024-2026 and results of performed risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

1. National Authorizing Officer (NAO) and Management Structure (MS) composed of National Fund (NF) and Support Office for the NAO (NAOSO):

- 2(c) Fraud risk
- 2(d) Identification and assessment of changes affecting the system of internal controls
- 3(a) Selection and development of control activities
- 4(a) Information to support functioning of internal controls
- 4(b) Internal communication
- 4(c) External communication

2. Contracting Authority (CA):

- 2(c) Fraud risk
- 2(d) Identification and assessment of changes affecting the system of internal controls
- 3(a) Selection and development of control activities
- 4(a) Information to support functioning of internal controls
- 4(b) Internal communication
- 4(c) External communication

3. Control Body (CB):

- 2(c) Fraud risk
- 2(d) Identification and assessment of changes affecting the system of internal controls
- 3(a) Selection and development of control activities
- 4(a) Information to support functioning of internal controls
- 4(b) Internal communication
- 4(c) External communication

Additionally, during our audit we performed follow up of implementation of recommendations related to open findings from previous audits in all bodies within the MCSS.

The system audit encompassed the period from 1st August 2023 to 31st December 2024. The audit was performed in the period from 14th June 2024 until 31st January 2025.

The Final Audit Report was issued and submitted to National Authorising Officer, Deputy National IPA Coordinator of Montenegro, National IPA Coordinator of Albania, Head of Operating Structure in Montenegro and Head of Operating Structure in Albania on 13th February 2025.

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

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 2024-2026 the Audit Authority performed a detailed risk assessment to determine the bodies and ICF area which will be covered by system audit. Additionally, in order to define the key requirements within each area which will be encompassed by the appropriate audit activities in particular body, we performed risk assessment at the level of each requirements during system audit engagement planning.

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

- International Standards on Auditing (and in particular ISA 300, 315, 320, 330, 500),
- Guidance for Member States on Audit Strategy (Programming period 2014-2020), (EGESIF_14-0011-02 final 27/08/2015),
- Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems (EGESIF_14-0010-FINAL 18/12/2014) and
- Guidance on sampling methods for audit authorities, Programming periods 2007-2013 and 2014-2020 (EGESIF_16-0014-01 20/01/2017).

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

Based on the results of risk assessment, the following bodies being part of the management, control and supervision system of this Programme were covered by the system audit:

- National Authorizing Officer (NAO) and Management Structure (MS) composed of National Fund (NF) and Support Office for the NAO (NAOSO)
- Contracting Authority (CA) and
- Control Body (AL CB).

The ICF areas which were under the scope of audit according to risk assessment were ICF area 2. Risk management, 3. Control activities and 4. Information and Communication.

Additionally, in order to define the key requirements within each body and ICF area we performed risk assessment at the level of each requirement during system audit engagement planning. The following key requirement was examined according to results of risk assessment:

- 2(c) Fraud risk
- 2(d) Identification and assessment of changes affecting the system of internal controls
- 3(a) Selection and development of control activities
- 4(a) Information to support functioning of internal controls
- 4(b) Internal communication
- 4(c) External communication

4.4 Description of the principal findings and conclusions drawn from the audit work for the management and control system and their functioning

The outcome of the audit process is summarized in the Final system audit report that provides findings and recommendations which were identified during the audit process in each body of Management Structure and Operating Structures. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 2 intermediate findings related to Montenegrin bodies and 1 intermediate finding related to Albanian bodies.

The evaluation of the MCSSs is expressed within one of the four categories as follows:

- Works well; only minor improvements are needed;

- Works, but some improvements are needed;
- Works partially; substantial improvements are needed;
- Essentially does not work.

Conclusions per auditee and audited requirements are given in table below:

IPA Body / Audit area	DMS (NF/NAOSO)	CA/CFCU	CB	TOTAL
2(c)	1	1	1	1
2(d)	1	1	1	1
3(a)	1	2	2	2
4(a)	1	1	2	2
4(b)	1	1	1	1
4(c)	1	2	1	2
TOTAL	**1**	**2**	**2**	**2**

Our assessment of the MCSS is based on the examination of the functioning of the above-mentioned key requirement, as well as on the results of follow up of previous years system audits findings and professional judgement.

Overall conclusion for MCSS is presented in table below, per each body:

Category / IPA Body	Works well; only minor improvements are needed	Works, but some improvements are needed	Works partially; substantial improvements are needed	Essentially does not work
DMS (NF/ NAOSO)	x			
CA/CFCU		x		
HOS/HOS OFFICE MNE		x		
CBC BODY MNE	x			
HOS/ CBC BODY ALB		x		
CB ALB		x		
Overall conclusion	Works, but some improvements are needed			

Further below there is a description of the most important findings (major and intermediate) and recommendations provided for correcting the findings detected.

4.4.1 Principal Findings and recommendations related to MCSS

A) Principal Findings and recommendations related to MCSS in Montenegro

➢ Finding Nº 1: Non-compliance with procedures prescribed in the Manual of Procedures

ICF requirement:

3. Control activities

(a) Selection and development of control activities

Level of priority: *Intermediate*

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

According to the Manual of Procedures (version 2.0), Chapter Financial Management, point 4.2 „Payments to contracts/grant beneficiaries" it states that on the 1st day of the receiving the payment request, the Accountant/Head of FD should register the payment request in the Information system. Additionally, point 4.5 „Modalities concerning cost recognition" it states that on the 1st day of receiving the financial reports, the Head of FD should register them in the Financial Register.

During the audit period, the auditors concluded that:

1. the Invoice register was not updated in accordance with the received payment request (e.g. Contract CFCU/MNE/157) and
2. the Financial Report Register was not updated in accordance with the received financial report (e.g. Contract CFCU/MNE/220).

According to the Manual of Procedures (version 2.1), Chapter Accounting, point 8.2 – "Reconciliation between IA and Contractor's ledgers" it states that *„Reconciliation of outstanding receivables and recoveries between the IA and the Contractor's ledgers has to be made once a year at the end of financial year for the previous year. "*

The CFCU signed the reconciliation forms on the 21st January 2025, and sent to the Grant beneficiaries on the 22nd January 2025, allowing 10 working days for a response.

Considering that it is not possible to meet the prescribed deadline (at the end of financial year), Audit Authority auditors recommended to the CFCU during the last period to update the MoP (version 2.1) Chapter Accounting so that the reconciliation procedures are to be carried out at least by 15th January of the following years. However, CFCU did not comply with or implement this recommendation.

Recommendation:

We recommend that the CFCU:

1. follow the procedures for updating the Invoice Register and Financial Report Register.
2. update the MoP (version 2.1) to set the reconciliation deadline to 15th January for the previous year and, until its formal adoption, issue an Exception to the Procedures to apply this deadline immediately.

- **Finding Nº 2: Failure to organize meetings with the Control Body**

ICF requirement:

4. Information and communication

(c) External communication

Level of priority: *Intermediate*

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

During the audit, it was concluded that the CFCU did not organize meetings with the Control Body during 2023-2024.

As stated in the Framework Agreement, Article 76, point 4 *"If the cross-border cooperation programme is implemented under indirect management, the operating structure of the IPA II beneficiary where the contracting authority is located shall, in addition to the provisions in Clause 4 of Annex A to this Agreement: (b) carry out operational follow-up and management of the operations in close cooperation with the other participating country".*

Given that there are still delays in the verification of costs, non-harmonized deadlines for submitting documentation which affect delays in issuing Written approval letters and executing payments, and considering that the AA finding related to the "Failure to meet prescribed deadline" remains open (with persistent delays in the verification of interim/final reports by the CFCU and Control Body, as well as in the execution of payments by the CFCU) it is concluded that there is a lack of communication between the above-mentioned bodies.

Recommendation:

We recommend that the CFCU implement a practice of organizing meetings with the Control Body at least twice a year (online or in person).

B) Principal Findings and recommendations related to MCSS in Albania

- **Finding Nº 1: Lack of Involvement of the Control Body in the Preparation of the Communication and Visibility Plan**

ICF requirement:

4. Information and communication

(a) Information to support functioning of internal controls

Level of priority: *Intermediate*

Body/-ies concerned by the finding: *HOS/CBC Body ALB, CB*

The Control Body was not involved in the preparation and approval processes of the Programme Communication and Visibility Plan. In addition, during the audit mission, it was observed that the Control Body had not been provided with information regarding its development and approval, as required by relevant agreements.

Based on the Framework Agreement, Article 24 "Visibility and communication", it is stated:

(1) The Commission and the IPA II beneficiary shall agree on a coherent plan of visibility and communication activities to make available, and actively publicise information about programmes and actions under IPA II assistance in the Republic of Albania. The procedures for implementing such activities shall be specified in the Sectoral or Financing Agreements.

Article 76 "Operating structures" of the Framework Agreement it is stated:

(3) The operating structures of the participating countries shall co-operate closely in tasks of mutual interest. They shall jointly fulfil the following functions and assume the following responsibilities:
... (k) prepare and implement a coherent plan on communication and visibility;

Based on the Operational Agreement between the Head of Operating Structure, Head of CBC Body and the Head of the Control Body of Albania, at the article 5 "Role of the Albanian CBC Body", it is stated:
"The Albanian CBC Body shall act in cooperation with Montenegrin CBC Body and shall be responsible, inter alia for the following activities:
...f) insure adequate information spreading on the programme in Albanian territory as well as its publicity and visibility"
at the Article 10, it is stated:
(1)" The parties shall insure that provisions regarding publicity and visibility referred to in the article 24 and 76 of the Framework Agreement are fully respected".

The above-mentioned provisions underline the importance of the participation of all the Operating Structures in the preparation and implementation of the Communication and Visibility Plan.
Evidence provided by the CBC Body Albania indicated that the Joint Monitoring Committee had approved Communication and Visibility Plans for 2023 and 2024, which outlined actions to be implemented by CB and other operating structures, for successful CBC Programme execution. However, during the audit engagement, no evidence was provided to confirm the Control Body's involvement in the development of these plans. Moreover, no documentation was available to show that the Communication and Visibility Plan was shared by the Joint Technical Secretariat (JTS) or the CBC Body Albania to CB, which is responsible for information dissemination within Albania.

The lack of involvement and information may hinder the effective implementation of the Communication and Visibility Plan, as actions outlined in the plan require collaboration from all operating structures. This gap also indicates inefficient external communication between the Control Body and CBC Body Albania, potentially impacting the visibility and public awareness of the CBC Programme.

Recommendation:

We recommend that the:

- CBC Body Albania ensure the Control Body is included in the development and review stages of the Communication and Visibility Plan, in accordance with Articles 24 and 76 of the Framework Agreement.
- Operating Structure in Albania establish clear communication channels and regular information-sharing mechanisms between the Control Body, JTS, CBC Body Albania and the JMC to promote efficient collaboration.

4.4.2 Details of whether any problem identified were considered to be of systemic character, and of measures taken, including a quantification of the irregular expenditure and any related financial corrections

Not applicable.

4.5 Description of specific deficiencies related to the management of financial instruments

Not applicable.

4.6 Level of assurance obtained following the system audit (low/average/high) and jurisdiction

The evaluation of the MCSSs is expressed within one of the four categories as follows:

- Works well; only minor improvements are needed;
- Works, but some improvements are needed;
- Works partially; substantial improvements are needed;
- Essentially does not work.

According to the results of the system audit conducted during 2024, MCSS established for implementation of the IPA II 2014-2020 CBC Programme ″Montenegro-Albania″ has been classified in Category 2 that is it **'works, but some improvements are needed'**. Therefore, the level of assurance obtained from the system is average.

5. AUDITS OF SAMPLES OF TRANSACTIONS

Not applicable. Bearing in mind that no expenditures were declared during the year 2024, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2024.

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

Not applicable.

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

Not applicable.

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.

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.

Not applicable.

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.

Not applicable.

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).

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.

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

The audit of the annual financial reports or statements/annual account in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Albania" was conducted by the Audit Authority of Montenegro according to Audit Strategy 2024-2026.

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

Audit of accounts was carried out in compliance with the Audit Authority Manual of procedures, Programme Audit Strategy 2024-2026, Framework Agreement and relevant Financing Agreements.

The NAO submitted to the Commission, in accordance with Article 59(2) of the Framework Agreement, the Annual Financial Reports for Action and CBC Programmes for Montenegro, managed under indirect management on 14th February 2025 including the CBC Programmes "Montenegro-Albania" for years 2016-2020[1].

The amounts declared in the Annual Financial Report for 2024 are presented in the table below:

Programme Reference	Financing Agreement contract number	Total Amount Disbursed		Total Costs Recognised		Total Open Pre-financing		Bank Balances (EU contribution)	Forecast disbursements
		EU contribution	Other sources	EU contribution	Other sources	EU contribution	Other sources		Next 12 months
CBC MNE-ALB 2016	2016/ 038-174	1.436.370,05	0,00	1.436.370,05	254.097,29	0,00	0,00	168.992,85	N/A
CBC MNE-ALB 2017	2017/ 038-175	999.974,67	0,00	999.974,67	176.466,10	0,00	0,00	51.282,77	N/A
CBC MNE-ALB 2018	2018/ 041-468	1.240.463,78	0,00	471.761,59	84.367,96	768.702,19	0,00	314.675,70	408.573,14
CBC MNE-ALB 2019	2019/ 041-470	293.229,60	0,00	32.267,75	5.694,31	260.962,85	0,00	1.066.770,40	127.080,16
CBC MNE-ALB 2020	2020/ 041-471	817.565,81	0,00	0,00	0,00	817.565,81	0,00	406.434,19	0,00

During the audit AA took into consideration the results from the system audits regarding the design and operating effectiveness of the management and control (MCSS) in the process of preparing and submitting of the Annual Financial Reports carried out in the National Fund Division (NF) and results of follow up of findings issued in the previous audits. Bearing in mind that no expenditures were declared during the year 2024, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2024.

Moreover, in accordance with the EGESIF Guidance 15-0016-04 of 03/12/2018, the AA performed additional verifications on the accounts in order to provide an opinion whether the accounts give a true and fair view. AA also checked whether the accounts had been prepared in accordance with the templates set out in Annex 4a and 4b of Financing Agreement.

[1] For allocations 2014 and 2015 NAO submitted Final Declarations to EC in 2023.

The Audit Authority, on the basis of the Annual Financial Reports provided by the National Fund Division (NF), verified that:

a) the total amounts submitted in the Annual Financial Report (programme budget, contracted amounts, amounts disbursed, total costs recognised, amounts of open pre-financing and the relevant percentages based on appropriate total amounts submitted to the Commission in accordance with the Annex IV of the Financing Agreements, as well as recovery context information on ineligible cost and recoveries) correspond to the amounts entered in the accounting system of National Fund Division (NF) and Implementing Agency/CFCU;
b) the total amounts submitted in the Annual Financial Report correspond to the amounts in the electronic database for each contract, in relation to the contract reference, contract value including any amendments, contract signature date, contract implementation start and end date, amount total paid by contract, amount related to total pre-financing paid and pre-financing cleared, total costs recognized, amount of recoveries under the contract;
c) the bank account statement balances and the bank confirmation letter correspond to the year-end balances in the accounting systems of the National Fund Division (NF);
d) reconciliation of the accounting records and cash flow statements of the National Fund Division (NF) and Implementing Agency (CFCU) is performed;
e) total amounts of recoveries correspond to supporting documents for recoveries.

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 Reports – (Annexes 4a and 4b of Financial Agreements), IA Requests for Funds, IA Financial Reports Register, Quarterly Progress Report on contracts and payments, Written Approval Letters, IA payment orders, Payment books, IA Cash flow statements, Bank statements and IA Accounting records in the General ledger.

Furthermore, verifications on the amounts were carried out on the following evidence in the National Fund Division (NF): Year-end cut-off reports, Analytical cards of MF-NF IPA CBC MNE-ALB accounts, Payment requests to the EC, Requests for Funds from IA, Liquidity books, Bank statements and Transfer orders and accounting records in the General Ledger.

See reconciliation table below:

Programme/Grant beneficiary				NF Accounting System														IA/CFCU									
Name of allocation	Current contract value/ EU part	Current contract value/ Other sources	Source	RfF from IA	Record in NF Acc system	Bridge Financing	Record in NF Acc system	RfFs to EC	Record in NF Acc system	Bank statement MF-NF-IPA Acc	Record in NF Acc system	Bank statement State Treasury Main Acc	Record in NF Acc system	Financial Forecast	Cost recognised EU part	Cost incurred and accepted but not yet paid EUPart	Calculation by AA	Payment Order	Bank statement	Record in CFCU Acc system	Pre-financing paid	Pre-financing cleared	Cost accepted EU part	Open pre-financing	Recovery by Coordinator	Calculation by AA	Recovery
CBC MNE-AL 2016*	1.605.362,90	283.989,74	Pre-financing Further pre-financing Final payment	1.436.370,05	1.436.370,05	0,00	0,00	1.436.370,05	1.436.370,05	1.436.370,05	1.436.370,05	1.436.370,05	1.436.370,05	0,00	1.436.370,05	0,00	1.436.352,59	1.436.370,05	1.436.370,05	1.436.370,05	1.436.352,59	1.436.370,05	0,00	-17,46	0,00	0,00	17,46
CBC MNE-AL 2017	1.051.257,44	185.516,01	Pre-financing Further pre-financing Final payment	999.974,67	999.974,67	0,00	0,00	999.974,67	999.974,67	999.974,67	999.974,67	999.974,67	999.974,67	0,00	999.974,67	0,00	999.974,67	999.974,67	999.974,67	999.974,67	999.974,67	999.974,67	0,00	0,00	0,00	0,00	0,00
CBC MNE-AL 2018	1.700.000,00	305.144,47	Pre-Financing Further pre-financing	1.240.463,77	1.240.463,77	0,00	0,00	1.240.463,77	1.240.463,77	1.240.463,77	1.240.463,77	1.240.463,77	1.240.463,77	408.573,14	471.761,59	0,00	471.761,59	1.240.463,77	1.240.463,77	1.240.463,77	1.240.463,77	471.761,59	0,00	768.702,18	0,00	768.702,18	0,00
CBC MNE-ALB 2019	420.309,76	74.172,31	Pre-financing	293.229,60	293.229,60	0,00	0,00	293.229,60	293.229,60	293.229,60	293.229,60	293.229,60	293.229,60	127.080,16	32.267,75	0,00	32.267,75	293.229,60	293.229,60	293.229,60	293.229,60	32.267,75	0,00	260.961,85	0,00	260.961,85	0,00
MNE-AL-2020	1.530.000,00	309.526,21	Pre-financing	817.565,81	817.565,81	0,00	0,00	817.565,81	817.565,81	817.565,81	817.565,81	817.565,81	817.565,81	0,00	0,00	0,00	0,00	817.565,81	817.565,81	817.565,81	817.565,81	0,00	0,00	817.565,81	0,00	817.565,81	0,00

*** Column recovery:** Amount of recovery which should be recognised by CFCU and recovery based on the findings recognised during the audit of operation for 2022 and results of follow up presented in the Audit Recommendation Status Report issued for 2023 = 17,46€

During the audit, no findings which have an influence on the completeness, accuracy and veracity of the amount reported in annual accounts have been identified for CBC Programme MNE-ALB 2014-2020.

- Follow up of previous year' audit of accounts

During the audit, auditors performed follow up of implementation of recommendation related to open findings given in previous audits of accounts.

Results of follow up are presented in table below:

Nº	Findings identified during the audit of accounts 2022	Status in February 2025	Priority level and new deadline for implementation
1.	**Influence on the completeness, accuracy and veracity of the Annual Financial Reports for 2022** Reviewing the Annual Financial Report for 2022 it has been determined that financial corrections identified during Audit of operation 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 Audit of Operation Report Nº: 3011-2-06-133, from 13th February 2023, it is concluded that costs related to the activity 2. Travel (2.1 International travel) and corresponding indirect costs are ineligible in total amount of **20,55€** (EU part: 17,46€; other sources: 3,09€) **for CBC Programme "Montenegro-Albania" for the year 2016.** On the basis of received Final Audit of Operation Report the IA/CFCU didn't issue Updated Written Approval Letter with clarification and/or Notification letter to inform Coordinators of the projects/beneficiaries about modification of the total cost recognised in line with the written procedures in the MoP (version 2.0) Chapter Financial Management (4. Flow of funds – 4.5 – Modalities concerning cost recognised). Bearing in mind above mentioned it is evident that in the IA Main entries and on the basis of SAP print-out, source of documents has not been recorded. Additionally, it is evident that NF didn't take into account ineligible expenditure prescribed in the Final Audit of Operation Report during issuing Annual Financial Report for 2022. Cost recognised in Annual Financial Report for 2022 for CBC Programme "Montenegro-Albania" for the year 2016 is not corrected in relation to determined financial correction by Audit Authority.	<u>**Not implemented.**</u> Based on the submitted AFR for 2024 it is evident that CFCU and NF didn't take into account Audit Authority auditors recommendations. For Contract CFCU/MNE/159, it is concluded that costs related to the activity 2. Travel (2.1 International travel) and corresponding indirect costs are ineligible in total amount of **20,55€** (EU part: 17,46€; other sources: 3,09€). Implementation of the recommendation will be monitored in the following period.	*Level of priority:* **Major** *Body/-ies concerned by the finding:* **Head of CFCU** **Head of FD** **NAO** **Deputy NAO** **Head of NFD** **Head of NAOAO** *New deadline:* **Final Declaration for allocation 2016**

Nº	Findings identified during the audit of accounts 2020	Status in February 2025	Priority level and new deadline for implementation
1.	**Influence on the completeness, accuracy and veracity of the Annual Financial Reports** Reviewing the Annual Financial Report for 2020 for CBC Programme Montenegro-Albania 2015 it has been determined that financial corrections identified during Audit of operation in amount of 516,07€ have not been used into account during the preparation of AFR for 2020. CFCU did not issue updated Written Approval Letters with modification of the total cost recognised and insert relevant documents into the SAP. Also, NF didn't use into account ineligible expenditure prescribed in the Final Audit Operation Report and did not reduce cost recognised in AFR for 2020 for the amount of determined ineligible expenditures.	<u>**Partly implemented**</u> During the follow up of audit of operation performed in January 2022 it was determined that out of 516,07€, 56,94€ reported within budget line 5.7.15 and 3,99€ of related indirect costs are considered eligible. During the follow up of audit of operation performed in January 2023 it was determined that out of remaining amount of 455,14: 1. For CFCU/MNE050 amount of 51,40€ reported within budget line 5.7.15 and 3,60€ of related indirect costs **are considered eligible.** 2. For CFCU/MNE/055 amount of 91,44€ and 6,397€ of related indirect cost **are considered eligible costs.** 3. For CFCU/MNE/055 ineligible amount of 136,46€ (115,99€ EU Part and 20,47€ Private Contribution) within budget line Human Resources have not been deducted from cost recognised. 4. For CFCU/MNE/055 ineligible amount of 154,993€ reported within budget line 4.3 Consumables-office and corresponding indirect cost in amount of 10,85€ were deducted from the cost recognised within revised Confirmation of eligibility of expenditures issued by Control Body on 19th May 2023. Final Declaration for CBC Programme Montenegro – Albania 2015 was submitted to EC by NAO on 28th July 2023. Amount of 136,46€ was not deducted from cost recognised. Given recommendation related to the correction of the cost recognised is going to be followed up during the issuance of Closure letter from the Commission to the NAO related to the allocation 2015.	*Level of priority:* **Major** *Body/-ies concerned by the finding:* **Head of CFCU** **Head of FD** **NAO** **Deputy NAO** **Head of NF** **Head of NAOSO** *Deadline:* **Closure Letter by Commission for allocation 2015**

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.

The conclusion of the audit is based on the analysis of the procedure in place, information and documents collected in the Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and Directorate for Management Structure/ National Fund Division (NF), as well as the tests performed in the course of the audit by applying the Checklist for the audit areas.

The Audit Authority also considered the results from the system audit regarding the design and operating effectiveness of the management and control (MCSS) in the process of preparing and submitting of the Annual Financial Reports and results of follow up of findings issued in the previous audits. Bearing in mind that no expenditures were declared during the year 2024, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2024.

System audit performed during 2024 has not resulted in financial corrections regarding the reference period and has not influenced the correctness of the Annual Financial Reports for 2024.

The audit finding issued within the audit of operation performed in 2022 with financial correction in totally amount of 20,55€ (17,46€ EU part and 3,09€ private contribution) and results of follow up have influence on the completeness, accuracy and veracity of the Annual Financial Reports for 2024 for CBC Programme ″Montenegro-Albania″ for the year 2016. Costs recognised and Open pre-financing in the Annual Financial Report for 2024 are not corrected for the amount of determined financial correction.

Based on the audit work performed Audit Authority auditors have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2024, except amounts of Cost recognised and Open pre-financing (17,46€ EU Part and 3,09 Private Contribution) related to the CBC Programme "Montenegro-Albania" for the year 2016.

Correction which should be made are below materiality level of 2% (62.219,99€ for Cost recognised and 36.944,60€ for Open pre-financing).

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

No problems considered to be systemic in nature were identified.

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

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

During system audit performed in 2024, Audit Authority in cooperation with Albanian GoA members carried out follow up of implementation of recommendation related to open findings from the previous years. Results of follow up were presented in Final System audit report and Audit Recommendations' Status Reports.

Additionally, during the February 2025 we performed follow up as separate activity before issuing the AAAR and AAO. Follow up covered the findings and recommendations given during audit of operations and audit of accounts. Follow up was performed as well on findings issued during the verification of projects sustainability for allocations 2014 and 2015. Results of follow up were presented in Audit Recommendations' Status Reports which were submitted to all IPA Bodies in Montenegro and Albania.

A summary of the results of the follow up of findings from previous years' system audits and audits of operation is shown in the tables below:

Status of system audit findings in respect to bodies of MS and OS in Montenegro:

Nº	Findings identified during the System audit 2017	Body	Status in January 2025	New deadline
1.	Deficiency in the MoP Written Procedures	NAOSO	***Not implemented*** It is evident that NAOSO staff works on improvement of MoP, continuously. MoP (version 2.0) has been updated (Chapters: Irregularities and NF Financial Management). Some improvements are visible on the basis of exceptions of the procedures. However, the difference between the chapter is evident. The changes in certain chapters have not considered compliance with other chapters to which they are reflected (Part I and Part II). Level of priority: *Minor*	6 months
2.	Inadequate backup of data and insufficient number of trainings related to IT	NAOSO IA/CFCU	**Partly implemented.** Based on the submitted documents and along with detailed explanations by MS it is evident that relevant training for staff have been organised and conducted. This part of finding is closed. Regarding the Action Plan ISO 27002, at the Government session held on 5th December 2024, the Information on the Proposed action plan ISO 27002 was adopted. The implementation of the Action Plan ISO 27002 will be followed up. Recommendation related to the implementation of Action Plan ISO 27002 and back up of documentation remains. Level of priority: *Minor*	3 months
Nº	Findings identified	Body	Status in January 2025	New deadline

	during the System audit 2019			
1.	Audit trail for travel costs	CFCU CB	***Not implemented*** During the Audit of operation for the closure of the MNE-ALB 2015 allocation, relevant documentation/ evidence related to travel (fuel costs) for Contract CFCU/MNE/049 was not summited. Based on the Final Audit Activity Report for allocation MNE-ALB 2015, No:3011-4-06-489 dated on 26th October 2023, point 6 “Follow-up of previous years audit activity”, it was noted that Findings identified during the System audit for 2019 had not been closed regarding the Contract CFCU/MNE/049, and the deadline for the recovery of funds was set for one month. In the Report it was stipulated that: Regarding the Contract CFCU/MNE/049, out of the approved 1.500,00€, eligible cost is 1.413,66€ (based on the Compressive Travel Book – Fuel Bill). Audit Authority auditors concluded that ineligible costs in amount of 86,34€ and corresponding indirect costs in amount of 6,04€ had not been deducted from the cost recognised declared in Final Declaration. Total amount of ineligible cost is 92,38€ (78,52€ EU part, and 13,86€ other sources). Level of priority: *Intermediate*	Immediately
Nº	**Findings identified during the System audit 2020**	**Body**	**Status in January 2025**	**New deadline**
	No open findings			
Nº	**Findings identified during the System audit 2021**	**Body**	**Status in January 2025**	**New deadline**
1.	Technical errors observed in process of control and supervision of grant beneficiaries’ financial reports and	CFCU	***Not implemented*** Based on the audit conducted in 2024 and the reviewed documents related to approval of payment request, it was evident that:	Next approval of request for payment

	payment requests		1. FC1 and FC2 filled out all Checklists in hard copy. This part of finding is closed. 2. The Head of CFCU didn't approve and sign Checklist for Request for Funds since, in accordance with the MoP, this Checklist is not foreseen to be approved by the Head of CFCU. However, bearing in mind the crucial importance of this Checklist for Request for Funds before approval and executed payment, AA auditors provided recommendations. We recommend that the CFCU issue an exception to the prescribed procedures prior to preparing and approving the next payment requests, pending the adoption of the new version of the MoP. Level of priority: *Intermediate*	
Nº	**Findings identified during the System audit 2022**	**Body**	**Status in January 2025**	**New deadline**
1.	Failure to meet prescribed deadlines	CFCU CB	***Not implemented*** Delays in performing verifications of expenditures by CFCU and CB and payment executions are still evident. Level of priority: *Major*	Immediately
Nº	**Findings identified during the System audit 2023**	**Body**	**Status in January 2025**	**New deadline**
1.	Mistake related to the calculation of the Relevance of the action	CFCU	***Not implemented*** The evaluation of applications for the 4th Call for Proposals has been completed. Based on the documentation reviewed, a mistake was identified in the calculation of the Relevance of the Action (column in the Concept Note Table for grids comparation) for Applicants No.4 and No.5, which resulted in an error in the calculation of the Total average score. Additionally, for Application No.4, a mistake was made in	During next evaluation process

			the Full Application Evaluation Grids regarding the calculation of the Relevance of the Action. While these calculation errors were made, they did not reflect on the ranking of the Applicants. However, the abovementioned errors were not detected by Contract Division or the Quality Control Division in the CFCU. Level of priority: *Major*	
2.	No evidence related to risk analysis for transaction level verification	HOS OFFICE	***Implemented*** Based on the submitted documents, it is evident that HOS Office issued risk assessment in accordance with the AA auditors' recommendation and Annex 2 of the MoP Chapter: Management Verification. Risk Assessment was signed by relevant officers.	

Of the 7 findings that remained open after the previous Annual Audit Activity Report, one was closed during the follow up.

Status of system audit findings in respect to bodies of OS in Albania:

Nº	Findings identified during the System audits 2017 - 2022	Body	Status in January 2025	New deadline
	No open findings			
Nº	**Findings identified during the System audit 2023**	**Body**	**Status in January 2025**	**New deadline**
1.	Delays in expenditure verification process for the contracts CFCU/MNE/162 and CFCU/MNE/157	CB CFCU	***Not implemented*** Delays in process of verification of expenditures is still evident. - The Contracting Authority shall insure to forward officially to Control Body only the signed and stamped financial reports as according to the ERF approved by NAO on 23/09/2022. - CA should provide proper coordination of the whole process of expenditure verification and provide adequate guidance to the Coordinator and CB in	Immediately

			accordance with the PLCP. Level of priority: *Intermediate*	
2.	Procedure for the approved exceptions not included in the PLCP	NAO HOS MNE HOS ALB	***Partly implemented*** Version 1.1 of PLCP was approved by NAO on 28/03/2024 with the date of entry into force 29/03/2024. The approval of the new PLCP 1.1 is preceded by a consultation process. The revised PLCP version 1.1 has taken into consideration and reflected the changes required by the approved ERFs on 06/04/2022, 23/09/2022 and 29/5/2023. However, the new version of PLCP 1.1 do not contain some provisions already existent in the old PLCP version 1.0 as well as changes proposed by Control Body and approved by ERF signed on 23/09/2022, regarding Section 8 which regulates the route of transmission of original documents from Coordinator to CA and CB: *"Coordinators from Montenegro or Albania shall submit above-mentioned documents, originals to the Contracting Authority and Copy to the Control Body." (PLCP 1.0)* *"The financial report should be signed and stamped as applicable from the respective coordinators The Contracting Authority shall ensure to forward officially to the Control Body only the signed and stamped financial reports. All the ones not fulfilling such criteria will be refused from the Contracting Authority and returned back to the coordinators/ beneficiaries." (ERF 23/09/2022)* *"Administrative control will be performed in accordance with relevant checklist (Annex 8.1)." (PLCP 1.0)* Based on the management comments and documents provided, the PLCP	Immediately

			Version 1.1 is recommended to be revised in order to reflect the above-mentioned provisions. Level of priority*: Intermediate*	

Regarding the Albanian bodies, two (2) findings from previous audits remain open.

Status of audit of operation findings:

Nº	Findings identified during the Audit of operation 2019	Body	Status in February 2025	New deadline
1.	Procedures for control of eligibility of expenditure	CFCU	***Not implemented*** Controllers do not perform administrative verification of fulfilment of criterion relating to the accounting. They confirmed the fulfilment of this criterion in administrative control check list but without adequate supporting documents related to accounting entries. Accounting evidence was checked only during the on the spot control which was not performed before approval of each Interim report. Level of priority: *Intermediate*	Until the approval of the next/Final Progress Financial Report
Nº	**Findings identified during the Audit of operation 2022**	**Body**	**Status in February 2025**	**New deadline**
1.	Un-respected procedures related to the retention of documents	CFCU	***Not implemented*** During OTSC Audit Authority auditors were not convinced of the existence of an audit trail. Finding remains open. Level of priority: *Intermediate*	3 months
2.	Delays in further pre-financing payment to the coordinator	CFCU CB	***Not implemented*** Delay in verification process by CB and CFCU is still evident as well as in payment execution by CFCU. Finding remains open. Level of priority: *Major*	Immediately
3	Ineligible expenditure related	CFCU	***Not implemented***	Immediately

	to the Budget line: Travel (Travel costs)		Ineligible expenditures in amount of **20,55€** (EU Part 17,46€ and Private Contribution 3,09€) for Contract CFCU/MNE/159 have not been rejected form cost recognized and recovered. Level of priority: *Major*	
Nº	**Findings identified during the Audit of operation 2023**	**Body**	**Status in February 2025**	**New deadline**
1	Deficiencies in implementation of On-the-spot verification by CFCU	CFCU	***Not implemented*** During period of the audits CFCU submitted OTSV photos but it was concluded that: 1. pictures are the same as pictures submitted by Coordinators of the projects. 2. pictures are not relevant since the OTSV by CFCU **have been conducted after delivery to the final beneficiaries** and based on that, the content of pictures should be assigned equipment in use and not equipment on storage. Additionally, template for OTSC Verification Checklist for Grant Contract does not contain detailed questions related to the existence of the supplied equipment, performed works or any physical aspects of project implementation and visibility. Based on this, auditors are not convinced that the existence of the equipment can be checked in a valid manner. Level of priority: *Intermediate*	- for checking/ verifying existence of the project equipment: **During on-the-spot verification period;** - for updating the OTSC Verification Checklist for Grant Contract: **3 months**
2.	Non-compliance with procedures related to the visibility of the project “Green Lands”	CFCU	***Not implemented*** CFCU didn’t respect procedures related to the control of visibility of the equipment bearing in mind that beneficiary didn’t put the programme and/or project logos on the supplied equipment (vehicle, small vehicle, printer, benches, tables and vases for green area). However, CFCU didn’t	During on-the-spot verification period

			record this information during OTSV. Bearing in mind that project ″Green Lands″ was financed from allocation 2015 which is closed, implementation of recommendation will be monitored through finding No. 1 from audit of operation 2023. Level of priority: *Intermediate*	

Of the 6 findings that remained open after the previous Annual Audit Activity Report, none were closed during the follow up.

Status of audit of project sustainability findings:

Nº	Findings identified during the Audit of project sustainability 2023	Body	Status in February 2025	New deadline
1	Detected cases related to the sustainability of the project “Green Lands”	Coordinator of the project “Municipality of Berane”	***Partly implemented*** Based on the submitted document it is evident that Coordinator of the project recovered 1.020,41€ (EU part). This part of finding related to the recovery of funds was closed during the follow up performed in February 2024. Based on the submitted Letter No: 01-334/25-206/2 of 22nd January 2025 it is evident that Coordinator of the project-initiated procedures related to the construction of the recycling yard for 2025. Implementation of this part of the recommendation will be monitored in the following period. Level of priority: *Intermediate*	Until approval of budget for 2026

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 the 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 audit activity report under Art. 12 (3) of Commission Implementing Regulation (EU) No 447/2014 to the Commission and considered when establishing the level of assurance and opinion by the audit authority.

Not applicable.

8.3 Any other information that the audit authority considers relevant and important to communicate to the Commission, in particular to justify the audit opinion, is reported in this section.

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

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

The overall level of assurance could not be obtained bearing in mind that Audit Authority did not perform audit of operations in the reference period since no expenditure were declared to the European Commission in the financial year 2024. The assurance on the proper functioning of the management and control system is based only on the result of the system audit (system assessment – please see section 4 above), and taking into account the results of the follow-up of the findings given in the previous years where the management, control and supervision systems is assessed as *works, but some improvement(s) are needed.*

On the basis of above mentioned, we will issue an unqualified opinion on the proper functioning of the system and disclaimer of opinion on the legality and regularity of expenditure.

The assurance on the Annual Financial Reports or Statements/Annual Account is based on the results of the audit as described in section 6.3 of this AAAR. Therefore, as based on the performed audit of Annual Financial Reports or Statements/Annual Account we have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2024, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account.

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

Bearing in mind that no expenditures were declared during the year 2024, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2024.

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

Not applicable.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

			A	B		C	D	E		F	G	H=F-G	GI	JH
Fund	Reference (CCI)	Programme	Expenditure declared to the Commission in reference to the year	Expenditure in reference to the financial year audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Corrections implemented as a result of the total error rate	Residual total error rate	Other expenditure audited	Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%	%				
IPA	C (2014) 9352 2016/038-174 2017/ 038-175 2018/041-468 2019/041-470 2020/041-471	CBC Programme Montenegro-Albania 2016-2020[2]	/	/	/	/	/	/	/	/	/	/	/	/

[2] For allocation 2014 and 2015 NAO submitted Final Declarations to EC in 2023.