MONTENEGRO

AUDIT AUTHORITY

Nº: 01-908/25-97

Date: 14th February, 2025

ANNUAL AUDIT ACTIVITY REPORT

OF THE AUDIT AUTHORITY FOR

IPA III 2021-2027 CROSS-BORDER COOPERATION PROGRAMME

“MONTENEGRO – KOSOVO”

FOR THE PERIODS

1st JANUARY 2024 – 31st DECEMBER 2024

AND

1st JULY 2023 – 30th JUNE 2024

Podgorica, February 2025

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List of abbreviation

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AB	Accounting Body
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
CHU-IA	Central Harmonization Unit for Internal Audit
DMS	Directorate for Management Structure
EC	European Commission
ETCP	European Territorial Cooperation Programmes
EU	European Union
EUD	Delegation of the European Union
FA	Financial Agreement
GoA	Group of Auditors
IA	Implementing Agency
IBFM	Intermediate Body for Financial Management
ICF	Internal Control Framework
IPA III	Instrument for Pre-Accession Assistance III perspective
ISA	International Standards on Auditing
JTS	Joint Technical Secretariat
MA	Managing Authority
MCSS	Management, Control and Supervision System
MEA	Ministry of European Affairs
MLGA	Ministry of Local Government Administration
MoP	Manual of Procedures
MS	Management Structure
NA	National Authority
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
WLA	Work Load Analysis

1. INTRODUCTION

1.1 Identification of the Audit Authority and other bodies that have been involved in preparation of the report

The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of 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 Financial Framework Partnership Agreement between the European Commission and Montenegro on specific arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA III), ("*Official Gazette of Montenegro - International Agreements*", Nº 6/2022) and in the Commission Implementing Regulation (EU) Nº 2021/2236 on the specific rules for implementing Regulation (EU) Nº 2021/1529 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA III).

The Audit Authority is responsible for verifying:

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

The Audit Authority of Montenegro is responsible for the performance of audit tasks in respect of the IPA III Cross-Border Cooperation Programme Montenegro-Kosovo for 2021-2027 (Global commitment number for year 2022: JAD.974967, for year 2024: JAD: 974968, for year 2026: JAD.974971). It has been assisted by the Group of Auditors (GoA) composed of representatives by the Audit Authority of Montenegro and Central Harmonization Unit for Internal Audit (CHU-IA) within Ministry of Finance of Kosovo.

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 III.

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

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

Reference period for this AAAR is financial year[1] and covers the period from 1st January 2024 to 31st December 2024 and '12-month period'[2] from 1st July 2023 to 30th June 2024.

In the period September 2024–January 2025 Audit Authority performed system audit of functioning of Management, Control and Supervision System established for implementation of IPA III 2021-2027 CBC Programme "Montenegro-Kosovo".

Based on level of Programme implementation, as well as in accordance with adopted Audit Strategy for period 2024-2026 and results of performed risk assessment, all structures and bodies being part of the management, control and supervision system were covered by the system audit.

The key requirements which were under the scope of audit are key requirements 1. Control environment and 2. Risk management.

The Audit Authority has not been in position to perform audit of transactions/operations since no expenditure was declared for the 12 months' period.

Having in mind the level of Program implementation, no financial transactions were made in 2024, and annual financial reports were not submitted. Consequently, the Audit Authority was unable to conduct an audit of the annual accounts for the financial year 2024.

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

The Annual Audit Activity Report covers the Cross-Border Cooperation Programme Montenegro – Kosovo for 2021-2027 (Global commitment numbers: JAD.974967 – for year 2022, JAD.974968 – for year 2024 and JAD.974971 for year 2026). The total estimated cost of this CBC Programme is 9.734.118,00 € and the maximum Union contribution is set at 8.400.000,00 €. This Union contribution shall be split into yearly commitments for the period 2022, 2024 and 2026 in accordance with Annex I of Financing Agreement.

Structures and authorities being part of the management and control system of this Programe are, as follows:

1) The National IPA Coordinators (NIPAC) of Montenegro and Kosovo
2) The National Authorizing Officer of Montenegro (NAO)
3) The Management structure:
    - The NAO support office
    - The Accounting Body
4) The CBC Structure of Montenegro, comprised of:
    - Managing Authority, located in the Directorate for European Territorial Cooperation within Ministry of European Affairs
    - Intermediate Body for financial management (IBFM), located in the Montenegrin Ministry of Finance - Directorate for Finance and Contracting of the EU Assistance Funds (CFCU)
5) The CBC Structure of Kosovo, comprised of:
    - National Authority (NA) and

[1] Pursuant to Article 3(i) of the Financial Framework Partnership Agreement 'financial year' means the period from 1 January to 31 December of one given year as defined in Article 9 of the Financial Regulation

[2] According to Article 57 of FFPA '12-month period' means the period from 1st July of the previous financial year to 30th June of the current financial year, except where otherwise provided for in a sectoral or a financing agreement.

- Control Body (CB), both placed in the Ministry of Local Government Administration (MLGA).

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.

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 structure and authorities concerned, and details of any substantial changes in the management and control systems.

With a view to drawing up an audit opinion, Audit Authority shall assess results of audit activities from the performed audits of management and control system, on sample of declared expenditure and accounts and assess the consistency of the management declaration with regard to performed audit work.

Based on the available information the Audit Authority prepares the Annual Activity Audit Report and the Annual Audit Opinion.

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

During 2024 Audit Authority performed system audit of functioning of Management, Control and Supervision System established for implementation of Programme.

Bearing in mind that no expenditures were declared for the 12 months' period, as well as that no financial transactions were made during 2024 and annual financial reports were not submitted, the Audit Authority has not been in position to perform audit of transactions/operations and audit of annual accounts.

2. SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

2.1 Details of any major changes in the management and control systems and confirmation of its compliance with Article 8 of Commission Implementing Regulation (EU) No 2021/2236 based on the audit work carried out by the Audit Authority

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

- **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.

– **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/ Head of Managing Authority.

– **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)

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 8 of Commission Implementing Regulation (EU) Nº 2021/2236.

Above listed change does not have an impact on the audit work.

3. CHANGES TO THE AUDIT STRATEGY

3.1 Details of any changes made to the audit strategy and related explanations. In particular, indicate any change to the sampling method used for the audit of operations (see Section 5).

Pursuant to the Clause 9, paragraph 3, Annex A of the Financial Framework Partnership Agreement between Montenegro and the European Commission the Audit Authority carries out audits on the management and control system(s), on actions, transactions and on the annual accounts in line with internationally accepted auditing standards and in accordance with an audit strategy prepared on a tri-annual basis.

The Audit Strategy for IPA III 2021-2027 Cross-Border Cooperation Programme "Montenegro-Kosovo" was prepared and submitted to the European Commission with a copy to the NAO in November 2023. The Audit Strategy was prepared on a tri-annual basis for period 2024-2026 following the model in Annex G of Montenegrin Financial Framework Partnership 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 Final control report relates.

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

Not applicable.

4. SYSTEMS AUDITS

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

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 III 2021-2027 CBC Programme Montenegro - Kosovo, in line with the functions and responsibilities set out in Clause 9 of Annex A to the Financial Framework Partnership 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 – Kosovo, it is assisted by Group of auditors comprising a representative of Audit Authority of Montenegro and the Central Harmonization Unit for Internal Audit (CHU-IA) within Ministry of Finance of Kosovo.

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

Audit period	1. Programme (reference/ 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)
01.01.2024 - 30.11.2024	Cross-Border Cooperation Programme Montenegro – Kosovo for 2021-2027 ACT-60805 2022 JAD.974967 2024 JAD.974968 2026 JAD.974971	Audit Authority of Montenegro + Goa members	1. NAO SO 2. AB 3. MA 4.IBFM-CFCU 5. NA KOS 6. CB KOS	04.09.2024 - 30.12.2024.	*I Control environment* 1.The organisation demonstrates a commitment to integrity and ethical values – all bodies; 2.The senior management exercises oversight of the development and performance of internal control – all bodies; 3.Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives– all bodies; 4.The organisation demonstrates a commitment to attract, develop, and retain competent individuals in alignment with – all bodies; 5.The organisation holds individuals accountable for their internal control responsibilities in the pursuit of objectives – all bodies; *II Risk assessment* 6.The organisation specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives – all bodies;	*Findings related to Montenegro* 1. Lack of Programme Level Control Procedures – NAO, MA; 2. Understaffing – NAO, DMS, MA, IBFM; 3. Lack of trainings – NAO, DMS, MA, IBFM; 4. The Manual of Procedures (Part I, Chapter Irregularities) is not align with Annex H, Clause 2(1) of the FFPA – NAO, DMS, MA, IBFM; *Findings related to Kosovo* 1. Lack of Job descriptions for IPA III perspective – CBC Structure KOS, CB 2. Lack of Irregularity Officer in the Control Body *Audit conclusion:* Category 2 – Works, but some improvements are needed. For more details please refer to the point 4.4 of this report.	-	-	n/a

					7.The organisation identifies risks to the achievement of its objectives and analyses risks as a basis for determining how the risks should be managed – all bodies; 8.The organisation considers the potential for fraud in assessing risks to the achievement of objectives – all bodies; 9.The organisation identifies and assesses changes that could significantly impact the internal control system – all bodies				

Based on level of implementation of IPA III CBC Programme Montenegro - Kosovo for 2021-2027 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 were covered by the system audit:

1. NAO Support Office (NAOSO)
2. Accounting Body
3. Managing Authority
4. Intermediate Body for Financial Management (CFCU)
5. National Authority KOS
6. Control Body KOS

According to risk assessment the ICF areas which were under the scope of audit are Control environment and Risk assessment in all bodies.

The system audit encompassed the period from 1st January 2024 to 30th November 2024. The audit was performed in the period September – December 2024.

The Final Audit Report was issued and submitted to National Authorising Officer, Deputy National IPA Coordinator of Montenegro, National IPA Coordinator of Kosovo, Head of CBC Managing Authority, Head of Intermediate Body for Financial Management, Head of National Authority in Kosovo and Head of Control Body in Kosovo on 7th February 2025.

4.3 Description of the basis for the audits carried out, including a reference to the audit strategy applicable and more particularly to the risk assessment methodology and the results that led to establishing the audit plan for system audits

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.

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:

1. National Authorizing Officer of Montenegro (NAO) and Management structure (MS):
   - NAO Support Office (NAO SO)
   - Accounting Body (AB)
2. The CBC Structure of Montenegro, comprised of:
   - Managing Authority (MA)
   - Intermediate Body for financial management (IBFM): Central Finance and Contracting Unit (CFCU)
3. The CBC Structure of Kosovo, comprised of:

- National Authority (NA)
- Control Body (CB)

The ICF areas which were under the scope of audit according to risk assessment were ICF area 1. Control environment and 2. Risk management.

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:

I Control environment

1.The organisation demonstrates a commitment to integrity and ethical values;

2.The senior management exercises oversight of the development and performance of internal control;

3.Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives;

4.The organisation demonstrates a commitment to attract, develop, and retain competent individuals in alignment with;

5.The organisation holds individuals accountable for their internal control responsibilities in the pursuit of objectives;

II Risk assessment

6.The organisation specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives;
7.The organisation identifies risks to the achievement of its objectives and analyses risks as a basis for determining how the risks should be managed;
8.The organisation considers the potential for fraud in assessing risks to the achievement of objectives;
9.The organisation identifies and assesses changes that could significantly impact the internal control system.

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

The outcome of the audit process is summarized in the Final system audit report that provides findings and recommendations which were identified during the audit process in each body of MCSS. Findings were categorized according to level of importance to major, intermediate and minor findings. During this audit engagement we identified in total 6 findings: 1 major, 3 intermediate and 2 minor.

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

• Category 1 - Works well; only minor improvements are needed;
• Category 2 - Works, but some improvements are needed;
• Category 3 - Works partially; substantial improvements are needed;
• Category 4 - Essentially does not work.

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

Auditee	ICF requirements Annex B FFPA									Total Assessment by auditee	Overall conclusion
	ICF 1	**ICF 2**	**ICF 3**	**ICF 4**	**ICF 5**	**ICF 6**	**ICF 7**	**ICF 8**	**ICF 9**		
CBC MA	1	1	2	2	1	2	1	1	1	2	2
IBFM -CFCU	1	1	1	2	1	2	1	1	1	2	
DMS (NAO SO and AB)	1	1	1	2	1	2	1	1	1	2	
CBC Structure KOS	2	1	2	2	2	2	1	1	1	2	
Control Body	2	1	2	2	2	2	1	2	1	2	

Our assessment of the MCSS is based on the examination of the functioning of the above-mentioned key requirement.

On the basis of performed work, we gained reasonable assurance that the MCSS established for implementation of the IPA III 2021-2027 CBC Programme Montenegro - Kosovo - **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 in Montenegro

- **Finding Nº 1: Lack of Program Level Control Procedures**

ICF requirement:

I Control environment

3. Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

Level of priority: *Major*

Body/-ies concerned by the finding: *NAO, Head of CBC MA, CBC Structure KOS, Control Body KOS*

According to Bilateral Agreement between Montenegro and Republic of Kosovo, Article 3: "*(4) This Agreement may be supplemented by Manual of Procedure, in case of Montenegro, detailed procedures applicable at programme level (hereinafter Programme level control procedures) and binding on public authorities concerned in both Montenegro and Kosovo, appropriate legislation, as well as inter-institutional and working agreements signed between authorities/parties involved in Programme management and implementation, (5) The type, adequacy and proper implementation of Programme level control procedures, having effect on the programme implementation, shall be subject to review and* *approval by the National Authorising Officer in the Montenegro, after consultations with all Programme authorities/parties.”*

Auditors concluded that Programme Level Control Procedures in respect to the CBC Programme Montenegro – Kosovo have been drafted but they have not been approved and endorsed by relevant authorities from both partner countries side.

It may have an impact on inappropriate implementation of tasks and responsibilities during different processes.

Recommendation:

In accordance with the provisions stipulated in the signed Bilateral Agreement, as well as with the view to ensuring proper planning, timing and responsibilities for activities needed to deliver objectives, we recommend finalising, approving and endorsing Programme level control procedures concerning the IPA III 2021-2027 Cross-border cooperation Programme Montenegro – Kosovo.

- **Finding Nº 2: Understaffing**

ICF requirement:

I Control environment

4. The organisation demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives

Level of priority: *Intermediate*

Body/-ies concerned by the finding: *NAO, Head of DMS, Head of CBC MA, Head of IBFM*

On the basis of Rulebooks on internal organisation and systematisation, as well as the results of WLAs, we determined lack of staff in all bodies responsible for implementation of Programme.

Namely, according to the Rulebook on internal organization and systematization of the Ministry of Finance sixteen (16) job positions are envisaged in the Directorate for Management Structure which perform the function of NAO Support Office and Accounting Body. According to the results of the Work Load Analysis seventeen (17) persons are required to perform activities of NAO Support Office and Accounting Body. In the period of performing the audit twelve (12) persons were employed, eleven (11) on the basis of the Long Term Employment Contract and one (1) employee on the basis of the Temporary Employment Contract.

According to the Rulebook on internal organization and systematization of the Ministry of Finance forty (40) job positions are envisaged in the Intermediate Body for Financial Management - Directorate for Finance and Contracting of EU Assistance Funds at the Ministry of Finance (CFCU). According to the results of the Work Load Analysis, the same number is required to perform activities in this Directorate. In the period of performing the audit thirty-one (31) persons were employed, twenty-eight (28) on the basis of the Long Term Employment Contract and three (3) employees on the basis of the Temporary Employment Contract.

The Rulebook on internal organisation and systematisation of the Ministry of European Affairs predicts eleven (11) positions in the CBC Managing Authority, including Head of CBC MA. According to the results of the Work Load Analysis, the same number is required to perform activities in the CBC MA. The current number of staff is eight (8), including Head of CBC MA, and all of them were employed on the basis of the Long Term Employment Contract.

It may have an impact on timely fulfilment of objectives of the institution.

Recommendation:

We recommend taking appropriate measures in order to employ necessary number of staff in accordance with the results of WLAs and Rulebook on internal organization and systematization of the Ministry of Finance and the Rulebook on internal organisation and systematisation of the Ministry of European Affairs.

4.4.2 Principal Findings and recommendations related to MCSS in Kosovo

- **Finding Nº 1: Lack of Job descriptions for IPA III perspective**

ICF requirement:

I Control environment

4. The organisation demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives

Level of priority: *Intermediate*

Body/-ies concerned by the finding: *General Secretary of MLGA, Head of CBC Structure, Head of Control Body*

The Department for Inter-Municipal and Cross-Border cooperation within the MLGA has a division for cross-border cooperation where the IPA funds team is located.

During the audit it has been determined lack of signed Job descriptions related to IPA III period for the staff in CB and CBC Structure.

Recommendation:

Job descriptions for IPA III Program period should be developed and signed by employees in KOS CBC Structure and Control Body.

- **Finding Nº 2: Lack of Irregularity Officer in the Control Body**

ICF requirement:

I Control environment

3. Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

II Risk Assessment

8. The organisation considers the potential for fraud in assessing risks to the achievement of objectives

Level of priority: *Intermediate*

Body/-ies concerned by the finding: *General Secretary of MLGA, Head of Control Body*

According to Bilateral Agreement between Montenegro and Republic of Kosovo, Article 18: *"(2) Managing Structure and CBC systems from both countries shall appoint an Irregularity Officers in accordance with national legislation, in charge to ensure implementation of irregularity related procedures."*

During the audit we determined that Irregularity Officer in Control Body has not been appointed for IPA III perspective.

It may have an impact on properly and timely response in the area of prevention and detection of irregularities, ie. proceedings related to suspicions of irregularities and identified irregularities, reporting on irregularities and follow-up to reported irregularities in the context of management and control of using funds within Instrument for Pre-accession Assistance of the European Union - IPA III.

Recommendation:

We recommend appointing of Irregularity Officer in the Control Body concerning IPA III perspective.

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

Not applicable.

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

Not applicable. No system audits performed in previous years.

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

Not applicable.

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

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 III CBC Programme Montenegro - Kosovo for 2021-2027 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 OPERATIONS

Not applicable. Bearing in mind that no expenditures were declared for 12 months’ period (1st July 2023 to 30th June 2024), the Audit Authority has not been in position to perform audit of transactions/operations.

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

Not applicable.

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

Not applicable.

5.3 Indication of the sampling parameters and other information for statistical or non-statistical sampling procedures, the underlying calculations for sample selection (in a format permitting an understanding of the basic steps taken, in accordance with the specific sampling method used) and explanation of the professional judgement applied

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

5.7 Summary table (see Section 9), broken down where applicable by programme, indicating the costs recognised and payments made declared to the Commission, the costs recognised audited and the errors identified.

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

Not applicable.

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

a) the number of sampling units audited, the respective amount;

b) the amount and type of error by sampling unit;

c) total errors;

d) the nature of the errors found:

e) root causes, corrective measures proposed, including those intending to improve the management and control system and the impact on the audit opinion.

Not applicable.

5.9 Details of the total error rate and residual error rate. Indication of the upper limit of the error rate (where applicable).

Indication of the stratum total and residual error rates, corresponding deficiencies, irregular amounts and the impact on the audit opinion.

The underlying calculations for total error rate and residual error rate, in a format permitting an understanding of the basic steps taken, in accordance with the specific sampling method used

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Having in mind the level of Program implementation, no financial transactions were made in 2024, and annual financial reports were not submitted. Consequently, the Audit Authority was unable to conduct an audit of the annual accounts for the financial year 2024.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

7. OTHER INFORMATION

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

Not applicable.

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

Not applicable.

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

Not applicable.

8. OVERALL LEVEL OF ASSURANCE

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

The overall level of assurance could not be obtained bearing in mind that Audit Authority has not been in position to perform audit of transactions/operations in the reference period since no expenditure were declared to the European Commission for the 12 months' period (1st July 2023 to 30th June 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), where the management, control and supervision system 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. We are not in position to issue opinion on the legality and regularity of expenditure.

Additionally, having in mind the level of Program implementation, no financial transactions were made in 2024, and annual financial reports were not submitted. Consequently, the Audit Authority was unable to conduct an audit of the annual accounts and issue opinion on the reliability of Annual Financial Reports or Statements/Annual Account for the financial year 2024.

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

Not applicable.

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

	A	B	C		D	E	F	G	H	I	J	K	L	M
Programme (reference/ title)	Payments made declared to the Commission for the 12 months period	Costs recognised declared to the Commission for the 12 months period	Costs recognised in reference to the 12 months period audited for the random sample		Total number of units in the population	Number of sampling units for the random sample	Amount of irregular costs recognised in random sample	Total error rate	Adjustments implemented as a result of the total error rate	Residual total error rate	Other costs recognised audited	Amount of irregular costs recognised in other costs recognised audited	Total costs recognised declared to the Commission cumulatively	Total costs recognised audited cumulatively
			Amount	%				%		%				