MONTENEGRO
AUDIT AUTHORITY

N°: 01-908/26-168/1
Date: 13th March, 2026

ANNUAL AUDIT ACTIVITY REPORT

OF THE AUDIT AUTHORITY FOR

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

FOR THE PERIOD
1st JANUARY 2025 – 31st DECEMBER 2025

Podgorica, March 2026

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
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

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*" N° 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*", N° 5/2015) and in the Commission Implementing Regulation (EU) N° 447/2014 on the specific rules for implementing Regulation (EU) N° 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA II).

The Audit Authority is responsible for verifying:

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

The Audit Authority 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 2025 to 31st December 2025.

Audit Authority did not perform system audit in 2025. Only follow up of findings and recommendations from previous system audits was performed as separate activity before issuing the Annual Audit Activity Report and the Annual Audit Opinion.

In the reference period Audit Authority performed audit of operation on the sample of operations for which the expenditures were declared to the European Commission (EC) during 2025.

One Declaration of Expenditure was sent to the European Commission (EC) on 21st February 2025 regarding 2018 financial allocation in total amount of cost recognised of 556.129,55 € (471.761,59 € EU part and 84.367,96 € other sources).

Additionally, Final Declaration of Expenditure regarding the 2016 allocation was sent to the European Commission on 29th April 2025. According to regulation Audit Authority submitted Final Audit Activity Report and Final Audit Opinion to EC on 25th July 2025.

As for financial allocations for 2017, 2019 and 2020 no expenditures were declared during the year 2025, while for the allocations for 2014 and 2015, Final Declarations were submitted to the EC during 2023.

At the end of February and beginning of March 2026, Audit Authority performed audit of the annual financial reports for the year 2025 and assessment of the Management declaration for the respective Programme.

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 years 2017-2020 (2017/038-175, 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 in period 2017-2024 and audits of operations performed during 2025, result of follow up of the findings and recommendations, results of audit of annual financial reports for 2025 and assessed the consistency of the management declaration with regard to performed audit work.

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 2025 NAO informed the European Commission and Audit Authority about substantial and planned changes in the system. The following changes occurred in 2025:

- **National IPA Coordinator**

At the Government session held on 6th February 2025, Minister of European Affairs – Ms Maida Gorčević has been appointed as NIPAC.

NAO informed European Commission and Audit Authority on these personal change on 2nd April 2025. (Letter No: 08-908/25-9418).

- **Head of CBC Structure in Albania**

Based on Decision of SASPAC Director, Mr. Klajdi Demko has been appointed as Director of Directorate for Convergence and Cohesion with the EU and Head of CBC Structure in Albania.

Montenegrin CBC Structure informed AA on these personal change on 16th April 2025.

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 2025 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) N° 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 N° 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 in November 2024. The Audit Strategy was prepared on a tri-annual basis for period 2025-2027 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", amended.

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

Not applicable.

System audit was not performed in the reference period. According to Audit Strategy for 2025-2027 and based on risk assessment and professional judgement system audit was not planned considering that in period 2017-2024 it was performed each year and all authorities and functions included in the MCSS as well as key control requirements set out in Annex B of FWA were audited.

Only follow up of findings and recommendations from previous system audits was performed during February 2026. The results of follow up are presented in Audit Recommendation Status Report.

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

Not applicable.

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

Not applicable.

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 MCSS 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 audits conducted in previous years (2017-2024), as well as results of follow up of findings performed in 2025, 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

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

The audit of sample of transaction in the framework of IPA II 2014-2020 CBC Programme "Montenegro-Albania" was conducted by the Audit Authority of Montenegro according to Audit Strategy 2025-2027. In conducting the audit AA was assisted by the Group of Auditors composed of representatives of the Audit Authority of Montenegro who performed the audit in territory of Montenegro and representatives of the Audit Agency for the EU - Accredited Assistance Programmes of Albania who performed the audit in territory of Albania in accordance with Rules of procedures of Group of Auditors.

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

The sampling was performed by the Audit Authority in accordance with the method described in the Audit Strategy 2025-2027 adopted for the Programme and in accordance with international auditing standards and having regard to the EGESIF 16-0014-01 Guidance on sampling methods for audit authorities.

Bearing in mind small number of operations in accounting year 2025 the sample was selected applying non-statistical sampling method by random selection of items. Sample size has been determined taking into account AA overall assessment of the MCSS and EGESIF 16-0014-01 guidance regarding minimal sample size when applying non-statistical sampling.

5.3 Indication of the parameters used for statistical sampling, materiality level, the confidence level, the expected error rate applied, calculation of the required sample and the interval, sampling unit, number of sampling units in the population, number of sampling units actually audited.

Not applicable bearing in mind that AA used non-statistical method.

5.4 Reconciliation of the expenditure declared to the Commission in the financial year to the sampled expenditure. Reconciling items include negative items where financial corrections have been made in the financial year, as well as differences between amounts declared in euro and amounts in national currency, where relevant.

The audit of operations was performed on the sample of operations for which the expenditures were declared to the European Commission during 2025. One Declaration of Expenditure was sent to the European Commission regarding CBC Action Programme “Montenegro-Albania” for the year 2018 on 21st February 2025.

Additionally, Final Declaration[1] of Expenditure regarding the CBC Action Programme “Montenegro-Albania” for the year 2016 was sent to the European Commission on 29th April 2025.

As for financial allocation for 2017, 2019 and 2020 no expenditures were declared during the year 2025. Consequently, the Audit Authority was unable to conduct an audit of transactions/operations regarding the financial year 2025. For allocations 2014 and 2015 Final Declarations were submitted to EC in 2023.

The population for audit of operation for 2018 allocation consists of five (5) operations including cost recognised in the Declaration of Expenditures in the amount of 556.129,55€ out of which 471.761,59€ is EU part and 84.367,96€ is private co-financing (other sources). No negative items were present in the amounts declared to the Commission during 2025. Population is given in the table below:

[1] According to regulation Audit Authority submitted Final Audit Activity Report and Final Audit Opinion to EC on 25th July 2025.

Contract No	Contract Name	Contractor	Contracted			Total amount paid by CFCU	Cost recognised		
			EU Part	Private co-financing	Total		EU part	Private co-financing	Total
CFCU/MNE/217	No Borders for Work!	Old Royal Capital Cetinje	359.500,00	68.585,60	428.085,60	298.312,25	77.981,01	14.877,26	92.858,27
CFCU/MNE/218	Joint Environmental Protection Action - JEPA	Municipality of Gusinje	255.357,00	45.063,00	300.420,00	224.218,44	129.927,83	22.928,44	152.856,27
CFCU/MNE/219	Skills for Sustainable Employment and Inclusive Economic Growth of Cross-Border Region of Albania and Montenegro – Skills for Jobs Albania-Montenegro	Foundation Business Start-Up Centre Bar	246.500,00	43.500,00	290.000,00	210.320,68	91.820,78	16.203,67	108.024,45
CFCU/MNE/220	New Reality of the Heritage Sites	Municipality of Bar	453.071,16	79.953,78	533.024,94	171.051,82	114.080,32	20.131,83	134.212,15
CFCU/MNE/222	Skadar Lake Watershed – a Transboundary Biosphere Reserve	Environmental centre for Development, Education and Networking EDEN centre	385.131,60	67.964,40	453.096,00	336.560,58	57.951,65	10.226,76	68.178,41
		Total	**1.699.559,76**	**305.066,78**	**2.004.626,54**	**1.240.463,77**	**471.761,59**	**84.367,96**	**556.129,55**

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

Not applicable.

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

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

During the planning phase of audits of operation AA decided that operation is set as sampling unit considering that said sampling unit will allow the AA to assess all audit area in order to attain audit of operation´s objectives.

Bearing in mind small number of operations per programme (5 operations for allocations 2018) the sample was selected applying non-statistical sampling method by random selection of items. Sample has been determined taking into account AA overall assessment of the MCSS, Commission statement regarding minimal sample size when applying non-statistical sampling, and risks identified in previous audit engagements.

To assure the randomness of the sample, the AA used a specialized CAAT tool CaseWare IDEA.

For audit of operation in respect to CBC Action Programme Montenegro - Albania for the year 2018 two (2) operations in overall amount of 227.070,42€ were selected in the sample using equal probability selection which presents 40% of the total number of units/operations (population) and 40,83% of total amount of declared costs.

Taking into account the level of assurance provided by the system audits and risks identified, the AA considers that the drawn samples are sufficient to draw conclusions and an audit opinion.

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).

CBC Action Programme “Montenegro-Albania” for the year 2018		
1	Amount of declared expenditures	556.129,55 €
2	No of units in population	5
3	Value of the sample tested	227.070,42 €

4	Value of the sample tested in %	40,83%
5	No of units in sample	2
6	No of units in sample in %	40%
7	Materiality 2% of expenditure declared in reference period (tolerable misstatement) (1*2%)	11.122,59 €
8	Error amount determined by the audit	41.663,35 €
9	Sample error rate ((8/3)*100)	18,35 %
10	Projected random error (1*9)	102.049,77 €

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

The overall audit objective is to verify the legality and regularity of declared expenditures, in accordance with AA competencies established by the Law on Audit of EU Funds and functions and the responsibilities set out in Annex A of the Framework Agreement concluded between the Government of Montenegro and the European Commission.

The audit was performed on sample of two operations. Details about operations we have selected are given in the table below:

N°	Sampled Contracts (operations)	EU part	Private co-financing	Total cost recognised declared to the Commission	Expenditure audited (EUR)	Audited / Declared expenditure (%)
1	**CFCU/MNE/217** No Borders for Work!	77.981,01€	14.877,26€	92.858,27€	92.858,27€	100%
2	**CFCU/MNE/220** New Reality of the Heritage Sites	114.080,32€	20.131,83€	134.212,15€	134.212,15€	100%
Total		**192.061,33€**	**35.009,09€**	**227.070,42€**	**227.070,42€**	**100%**

Following bodies were covered during the audit:

- Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) – Contracting Authority (CA)/Implementing Agency (IA);
- National Fund Division (NFD);
- Control Body (CB).

Audit Authority carried out on-the-spot checks of Montenegrin project partners, i.e. Old Royal Capital Cetinje related to the Contract CFCU/MNE/217 and Municipality of Bar related to the Contract CFCU/MNE/220.

The Albanian GoA members carried out on-the-spot check of Albanian project partners, i.e. Institute for Sustainable Policies related to the Contract CFCU/MNE/217 and Foundation for Local Autonomy and Governance – FLAG related to the Contract CFCU/MNE/220.

During the audit, we have identified and documented audit findings. The categories which we use to classify our findings are as follows:

- Findings for which action should be taken to ensure full compliance, but have no financial consequences- *System findings*

- Findings which have financial impact - *Transaction findings*

System findings:

- **Finding N° 1: Non-compliance with the procurement verification procedures**

Project name and number: *"New Reality of the Heritage Sites"; N°: CFCU/MNE/220*

Lead partner: *Municipality of Bar, Montenegro*

Responsible body: *IA/CFCU*

The AA auditors reviewed all the documentation related to the procurement procedures reported by the Coordinator of the project, Municipality of Bar, for the respective reporting period 1st March 2023-30th September 2024 (First Interim Report and Progress Report), and approved by the CFCU related to the Budget Line: 3. Equipment, 5. Other/services and 6. Other.

During relevant period, three (3) Single Tender procedures were launched. One (1) for equipment and two (2) for services.

It has been determined that Coordinator of the project:

1. used PRAG version 2020, even though at the time of the tender announcement, PRAG had been updated to version 2021.1;
2. sent uncompleted tender documentation to the potential bidders (tender file didn't include: Contract Notice, Special Conditions, General Conditions, Terms of References, Organisation and Methodology, Evaluation Grid, and Financial Forms);
3. used Technical specification for service, instead of Terms of References;
4. issued the Evaluation report, but it was not detailed (it does not contain a detailed description of the tender procedure).
5. approved total amount of the costs based on the Construction Measurement Book for Lot 1- adaptation of the public toilet without conducted on-the-spot check.

During relevant period two (2) Simplified Tender procedures were launched. One (1) for services and one (1) for works.

For Simplified tender procedures for services, it has been determined that Coordinator of the project:

1. used PRAG version 2020, even though at the time of the tender announcement, PRAG had been updated to version 2021.1;
2. published the Simplified tender procedure for services, divided into 1 Lot, included both equipment and services; even though both the equipment and services could be divided, given that the type of equipment is not closely related to the service;
3. sent the tender documentation to three addresses/potential bidders. However, the condition for sending the tender documentation to three relevant candidates/potential bidders was not met (tender was sent to the candidate, although during market research, it exceeded the maximum planned budget, and to the candidate whose activities are not closely related to the AR);

4. accepted unjustified increase in the amount for BL 3.5.5 in the official offer compared to the market research for the same technical specification;
5. issued the Evaluation report, but it was not detailed (it does not contain a detailed description of the tender procedure);
6. approved and made payment without the Contractor's reports defined in the Special Conditions of the Contract, Article 26.

For Simplified tender procedures for works, it has been determined that Coordinator of the project:

1. used PRAG version 2020, even though at the time of the tender announcement, PRAG had been updated to version 2021.1;
2. published the Simplified tender procedure for works, divided into 3 Lots; although conditions were provided only for Lot1;
3. accepted the offer submitted after the deadline for submission of tender;
4. signed one Contract for all three lots, with contractor, even though Tender forms and offers were submitted per lot in separate envelops and Evaluation reports were issued and signed per lot;
5. accepted official offer for Lot1 and Lot2 whose financial offer exceeded the framework of the maximum amount per BL without explanation;
6. issued the Evaluation reports per lot, but they were not detailed (they do not contain a detailed description of the tender procedure);
7. approved and made payment in the amount of 40% for all three lots; even though, according to Article 49 of the Special Conditions of the Contract, 40% of the contracted amount should have been paid after the completion of project documentation.

Based on the above, it is concluded that CFCU did not adhere to the procedures for verifying the eligibility of expenditure considering that CFCU approved expenditure related to tender procedures, which did not comply with PRAG rules and MoP (Chapter: Contract Implementation and OTSC) and without relevant supporting documents MoP (Chapter: Financial Management).

Level of priority: *Major*

Recommendation:

We recommend that the CFCU pay closer attention to and follow the prescribed procedures related to expenditure verification.

Transaction findings:

- **Finding N^{o} 1: Ineligible expenditure related to the Budget Lines: Travel (2.1 International travel) and Human Resources (1.1 Salaries – 1.1.2.2: Financial Assistant)**

Project name and number: *"New Reality of the Heritage Sites"; N°: CFCU/MNE/220*

Lead partner: *Municipality of Bar, Montenegro*

Responsible body: *IA/CFCU; Coordinator of the project*

The Grant Beneficiary, Municipality of Bar, Coordinator of the project "New Reality of the Heritage Sites" (CFCU/MNE/220) submitted the Financial and Narrative Reports to the CFCU for the respective reporting period 1st March 2023-30th September 2024 (First Interim Report and Progress Report), along with supporting documents.

Based on the Reports and supporting documents submitted by beneficiary, the CFCU approved the travel costs related to the Montenegrin project working team for the First Interim Report.

The AA auditors reviewed all the documentation (Written Approval Letters, Clarifications, FROSs, First Interim Report and the supporting documents) and approved costs by the CFCU related to the Budget Line: Travel (2.1 International Travel) and determined that there were ineligible costs.

The Grant Beneficiary, Municipality of Bar, submitted Travel Order No: 01-018/23-1568 issued on 26th May 2023, and Invoice No: 19282/2023 dated on 28th May 2023 reporting total amount of 64,99€ including VAT (11,28€). The CFCU approved total reported amount, including VAT.

Based on the above-mentioned, AA auditors concluded that the Grant Beneficiary, Municipality of Bar, refuelled the official vehicle and paid for the fuel using the official municipal card, including VAT.

According to Article 7 (point 7.1.3) of the Special Conditions of the Grant Contract - External Actions of the European Union, it is stipulated that: "*VAT/taxes, duties and charges are not eligible for the activities as described in Annex I*".

The activities described in Annex I (Grant Application Form – PART B. Full application form – General information – Main Activities) related to travel budget line included: Kick off meeting, and workshop for tourism management on experience of EU projects on adaptation of cultural heritage and use of modern tools for visualization.

Bearing in mind that VAT is not an eligible cost, AA auditors concluded that the amount of 11,28€ is not acceptable cost.

For this budget line, AA auditors concluded that there were ineligible costs in the amount of 11,28€ and indirect cost related to this issue amounting to 0,32€.

Total ineligible costs: 11,60€

(EU Part 9,86€ and Private Contribution 1,74€)

Additionally, relating to the BL: Human resources/Staff costs CFCU approved for BL: 1.1.2.2 the total amount of 6.120,00€ for Progress Report.

However, based on the submitted supporting documents and the CFCU Analysis table, it is evident that the amount of 1,74€ is not acceptable cost. Specifically, although CFCU calculated these costs correctly, there are technical errors in the table.

For this budget line, AA auditors concluded that there were ineligible costs in the amount of 1,74€ and indirect cost related to this issue amounting to 0,01€.

Total ineligible costs: 1,75€

(EU Part 1,49€ and Private Contribution 0,26€)

Level of priority: *Major*

Recommendation:

We recommend recovery of identified ineligible expenditure in the overall amount of 9,86€ (EU Part) for Travel costs and 1,49€ (EU Part) for Staff costs.

- **Finding Nº 2: Ineligible expenditure related to the Budget Lines: Equipment and supplies (3.5.3; 3.5.5;) and Other costs, services (5.8.1.3)**

Project name and number: *"New Reality of the Heritage Sites"; Nº: CFCU/MNE/220*

Lead partner: *Municipality of Bar, Montenegro*

Responsible body: *IA/CFCU; Coordinator of the project*

The Grant Beneficiary, Municipality of Bar, Coordinator of the project "New Reality of the Heritage Sites" (CFCU/MNE/220) submitted the Financial and Narrative Reports to the CFCU for the respective reporting period 1st March 2024-30th September 2024 (Progress Report), along with supporting documents.

Based on the Progress report and supporting documents, CFCU approved the reported costs related to the published Simplified tender procedures for services TD_Nº3 equipment for AR, info panel, AR software, joint web application, animated video production and 3D drawings production (BL:3.5.3: equipment for AR; 3.5.5: info panel; 3.5.7: AR software; 5.8.1.3: joint web application; 6.3.3: animated video production for AR; 6.5.5: 3D drawing production).

Within audited Progress report, Coordinator of the project requested approval of the costs related to the Budget Lines 3.5.3: equipment for AR, 3.5.5: info panel, and 5.8.1.3: join web application in the total amount of 28.241,00€.

The AA auditors reviewed all the documentation and approved costs by the CFCU related to the above-mentioned Budget Lines and evidenced that the Coordinator of the project:

1. conducted market research, and the offers were received from both potential bidders;
    1. the first, who submitted an offer within the framework of the maximum budgeted amount and
    2. the second, who submitted an offer almost twice as high as the budgeted amount.
2. used PRAG version 2020, even though at the time of the tender announcement, PRAG had been updated to version 2021.1;
3. published the Simplified tender procedure for services, divided into 1 Lot, included both equipment and services;
4. sent the tender documentation to three addresses/potential bidders as follows:
    1. to the first potential bidder from the market research who submitted an offer within the framework of the maximum budgeted amount,
    2. to the second potential bidder from the marker research who submitted an offer almost twice as high as the budgeted amount and who rejected to participate in the tender competition, stating that they were unable to submit an offer within the defined maximum budget,
    3. to the potential bidder who informed that AR was not their area of expertise;
5. received an official offer from the first bidder for BL 3.5.5. in the amount of 1.000,00€, which was three times higher than the offer submitted during the market research (which amounted to 280,00€ with the same technical specifications);
6. issued the Evaluation report, but it was not detailed (it does not contain a detailed description of the tender procedure);
7. signed the Contract on 29th December 2023 (with an implementation period of tasks of 12 months). Addendum to the Contract was signed on 26th December 2024 (with implementation period of tasks of 20 months - until 29th August 2025).

    After that, the Contract was not extended even though planned activities had not been implemented as follows:
    1. equipment for AR and info panel were not put into use because the AR software, animated video production and 3D drawings production had not been completed;
    2. the first front page of Joint web application was issued, but the web application had not been put into function (completed activities had not been uploaded to the website, and Montenegrin and Albanian language support were missing).

8. approved and made payment, without the Contractor's reports defined in the Special Conditions of the Contract, Article 26.

According to the above, the following

1. errors have been determined:
    1. unjustified increase in the amount for BL 3.5.5 in the official offer compared to the market research for the same technical specification;
    2. the Evaluation Report does not transparently present the selection process;
    3. even though the equipment has been purchased, the activities planned according to the signed contract and addendum of the contract have not been implemented, as the planned services remain unfinished.
2. irregularities have been identified:
    1. published Simplified tender procedure for service was not announced in a right manner, considering that both the equipment and services could be divided, given that the type of equipment is not closely related to the service;
    2. the condition for sending the tender documentation to three relevant candidates/potential bidders was not met (tender was sent to the candidate, although during market research it exceeded the maximum planned budget, and to the candidate whose activities are not closely related to the AR).

These irregularities are stipulated in the Directives 2014/23/EU, 2014/24/EU and 2014/25/EU and Guidelines for determining financial corrections to be made to expenditure financed by the Union for non-compliance with the applicable rules on public procurement point 2. *Types of irregularities and corresponding rates of financial corrections* point 3. Lack of justification for not subdividing contract into lots, for which financial correction rate of 5% is envisaged and point 11.3. Use of criteria for exclusion, selection, award or conditions for performance of contracts or technical specifications that are not discriminatory in the sense of the previous type of irregularity but still restrict access for economic operators, for which financial correction rate of 25% is envisaged.

In the above-mentioned Guidelines, point 1. *Introduction* point 1.4 Criteria to consider when deciding a proportionate rate of correction, it is stipulated that: „Where more than one irregularity is detected in the same procurement procedure, the rates of correction are not cumulated. The most serious irregularity is taken as an indication to decide the rate of correction applicable to the contract concerned, in accordance with Section 2."

Based on that, financial correction of 25% is applied to the amounts of 28.364,09€ (total approved costs in the amount of 28.241,00€ and indirect costs in the amount of 123,09€).

Based on the above, AA auditors concluded that the amount of 7.091,02€ is not eligible (EU Part 6.027,37€ and Private Contribution 1.063,65€).

Level of priority: *Major*

Recommendation:

We recommend that the CFCU

1. carry out the procedure with the Coordinator of the project for the recovery of the identified ineligible expenditure in the total amount of 6.027,37€ (EU Part).
2. apply the 25% correction to the remaining budget lines (covered by the Simplified tender procedures for services TD_Nº3, BL: 3.5.7; 6.3.3; 6.3.5), if requested by the Coordinator of the project, including the amount of reported indirect costs, provided that all contracted activities for the specified budget lines have been completed by the end of the Grant Contract implementation period.

We recommend that the Coordinator of the project

1. approve payments to the Contractor only for activities that are conducted during implementation period and based on the Contractor's reports defined in the Special Conditions of the Contract, Article 26.
2. ensure the activation of procured equipment and services that are approved and paid.

- **Finding N° 3: Ineligible expenditure related to the Budget Lines: Other (6.2 – Works: 6.2.1; 6.2.2; 6.2.3)**

Project name and number: *"New Reality of the Heritage Sites"; N°: CFCU/MNE/220*

Lead partner: *Municipality of Bar, Montenegro*

Responsible body: *IA/CFCU; Coordinator of the project*

The Grant Beneficiary, Municipality of Bar, Coordinator of the project "New Reality of the Heritage Sites" (CFCU/MNE/220) submitted the Financial and Narrative Reports to the CFCU for the respective reporting period 1st March 2024-30th September 2024 (Progress Report), along with supporting documents.

Based on the submitted Progress Report and the supporting documents, CFCU approved the reported costs related to the published Simplified tender procedures for works TD_N°1 Adaptation works in Bar: toilet, ticket services and paths.

Namely, Coordinator of the project requested approval of the costs related to the Budget Lines 6.2.1: adaptation of the public toilet in Old Town Bar, 6.2.2: adaptation of the reception-ticket office in Bar and 6.2.3: adaptation of the paths in Bar in the total amount of 38.000,00€.

The AA auditors reviewed all the documentation and approved costs by the CFCU related to the above-mentioned Budget Lines and evidenced that the Coordinator of the project:

1. used PRAG version 2020, even though at the time of the tender announcement, PRAG had been updated to version 2021.1;
2. published the Simplified tender procedure for works, divided into 3 Lots (Lot1 – adaptation of the public toilet in Old Town Bar; Lot2 – adaptation of the reception-ticket office in Bar and Lot3 – adaptation of the paths in Bar); although conservation conditions were provided only for Lot1 and defined that the Tender form should be completed as one form for each lot (as stated in the Invitation letter to tenderers);
3. defined the deadline for submission of tenders as of 30th July 2023 at 15:00h (as stated in the Instructions to tenderers and the Invitation letter to tenderers) as well as the date of the opening of tenders in a public session on 31st July 2023 at 10:00h;
4. sent the tender documentation to three addresses/potential bidders as follows:
    1. to the first potential bidder, who submitted offer on the 31st July 2023, at 14:30h,
    2. to the second potential bidder, who informed that due to the increased workload, they are unable to respond to the request requirements (Email sent on 31st July 2023 at 15:49),
    3. to the third potential bidder, who didn't submit offer.
5. received official offers from the first bidder, in the separate envelops per lots, and all three offers were accepted without detailed explanation in the Evaluation Report.
    1. for Lot1 – adaptation of the public toilet, financial offer was 16.500,00€ (exceeds the framework of the maximum amount per BL);
    2. for Lot2 – adaptation of the reception-ticket office, financial offer was 58.500,00€ (exceeds the framework of the maximum amount per BL);

    3. for Lot3 – adaptation of the paths, financial offer was 20.000,00€ (within the framework of the maximum amount per BL).
6. issued the Evaluation reports per lot, but they were not detailed (they do not contain a detailed description of the tender procedure);
7. signed the one Contract for all three lots on 4th August 2023 (with an implementation period of tasks of 100 calendar days from the commencement date). Addendum to the Contract was signed on 27th December 2023 (with implementation period of tasks of 2 years - until the end of August 2025).

    After that, the Contract was not extended even though planned activities had not been implemented as follows:

    1. adaptation of the reception-ticket office in Bar had not started and
    2. adaptation of the paths in Bar had not started.
8. approved and made payment in the amount of 40% for all three lots.

According to the above, the following

1. errors have been determined:
    1. the Evaluation Reports do not transparently present the selection process;
    2. activities planned in accordance with the signed contract and addendum of the contract have not been implemented and finished;
    3. acceptance of the offers for Lot1 and Lot2 which exceed the framework of the maximum amount per budget lines 6.2.1 and 6.2.2 without explanation and reallocation of budget;
    4. provisional acceptance has not been signed for Lot1;
    5. payment of 40% has been approved and made for all three lots, even though, according to Article 49 of the Special Conditions of the Contract, 40% of the contracted amount should have been paid only after the completion of project documentation (which refers to the conservation project approved by Administration for the Protection of Cultural Properties and Secretariat of Urbanism and Spatial Planning of the Municipality of Bar).

        Considering that project documentation has been completed only for Lot1, payment should have been made and approved only for Lot1.

        The following BL/Lots have been payed and approved:

        1. Lot1, amount of 3.990,00€,
        2. **Lot2, amount of 7.226,46€,**
        3. **Lot3, amount of 26.783,54€**

        Based on the above, there were ineligible costs in the amount of 34.010,00€ (for Lot2 and Lot3).
    6. Based on the Construction Measurement Book for Lot1, on-the-spot check was conducted, and the following items were not observed:

        1. two (2) single-leaf windows (with unit price 100,00€)

        total amount of ineligible costs = 200,00€

        2. three (3) mirrors (with unite price 50,00€)

        total amount of ineligible costs = 150,00€

        3. one (1) water heater (with unite price 180,00€)

        total amount of ineligible costs = 180,00€

> **Based on the above, the total ineligible costs amount to 530,00€. If these items are not installed by the end of the implementation period, an ineligible cost of 530,00€ should be deducted from the Final Report.**

AA auditors concluded that there were ineligible costs in the amount of 34.010,00€ and indirect cost related to this issue amounting of 148,24€.

Based on the above-mentioned errors, AA auditors concluded that amount of 34.158,24€ is not eligible (EU Part 29.034,50€ and Private Contribution 5.123,74€).

2. irregularities have been identified:
    1. published Simplified tender procedure for works should have been announced only for Lot1, considering that the conservation conditions were not provided by relevant authorities (Administration for the Protection of Cultural Properties and Secretariat of Urbanism and Spatial Planning of the Municipality of Bar);
    2. only one Contract has been signed between contracting authority and contractor, even though Tender forms and offers were submitted per lot in separate envelops and Evaluation reports were issued and signed per lot;
    3. acceptance of the offer submitted after the deadline for submission of tender.

These irregularities are stipulated in the Directives 2014/23/EU, 2014/24/EU and 2014/25/EU and Guidelines for determining financial corrections to be made to expenditure financed by the Union for non-compliance with the applicable rules on public procurement point 2. *Types of irregularities and corresponding rates of financial corrections* point 3. Lack of justification for not subdividing contract into lots, for which financial correction rate of 5% is envisaged and point 6.2 Lack of publication of extended time limits for receipt of tenders or failure to extend time limits for receipt of tenders, for which financial correction rate of 10% is envisaged.

In the above-mentioned Guidelines, point 1. *Introduction* point 1.4 Criteria to consider when deciding a proportionate rate of correction, it is stipulated that: „Where more than one irregularity is detected in the same procurement procedure, the rates of correction are not cumulated. The most serious irregularity is taken as an indication to decide the rate of correction applicable to the contract concerned, in accordance with Section 2."

Based on that, for Lot1 financial correction of 10% is applied to the amounts of 4.007,39€ (total approved costs in the amount of 3.990,00€ and indirect costs in the amount of 17,39€).

Based on the above, AA auditors concluded that the amount of 400,74€ is not eligible (EU Part 340,63€ and Private Contribution 60,11€).

Total ineligible amount is 34.558,98€ (EU Part 29.375,13€ and Private Contribution 5.183,85€).

Level of priority: *Major*

Recommendation:

We recommend that the CFCU

1. carry out the procedure with the Coordinator of the project for the recovery of the identified ineligible expenditure in the total amount of 29.375,13€ (EU Part).
2. for Lot 1, reject the amount of 532,31€ (530,00€ for items that were not observed and 2,31€ for indirect costs) if these items are not installed by the end of the implementation period.
3. apply the 10% correction to the remaining budget line (covered by the Simplified tender procedures for works TD_Nº1, BL: 6.2.1) if requested by the Coordinator of the project, including the amount of reported indirect costs.

4. apply the 10% correction to the remaining budget lines (covered by the Simplified tender procedures for works TD_N°1, BL: 6.2.2; 6.2.3) if requested by the Coordinator of the project, including the amount of reported indirect costs, provided that all contracted activities for the specified budget lines have been completed by the end of the Grant Contract implementation period. If activities related to these budget lines have not been completed, CFCU should reject all reported costs.

We recommend that the CFCU, HOS Office, and JTS, during the on-the-spot verification/monitoring visit, not only review the documentation but also verify the actual services, supplies, and works performed, which are related to the justification of costs before issuing the Written Approval Letter.

We recommend that the Coordinator of the project

1. approve payments to the Contractor only for activities that are conducted in accordance with the conservation conditions during implementation period;
2. pay more attention and consider the actual status of completed works, comparing it with the Construction Measurement Book (if there are payment requests) before proceeding with the payment, in accordance with the Article 3 and Article 5 of the signed Contract between Coordinator of the project and Professional Supervision.

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.

During the audit of operation in 2025 regarding the CBC Action Programme Montenegro – Albania 2018 we identified 3 findings with financial impact in total amount of 41.663,35 € (18,35%). As this error is treated as random error, it is projected (extrapolated) to the whole population (556.129,55 €), and the projected (extrapolated) error is 102.049,77€.

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.

Total projected error on the overall population is 102.049,77 € (18,35%) and it is above the materiality threshold of 11.122,59 € (2%).

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.

During the audit of operations regarding allocation 2018 errors in the total amount of 41.663,35 € (EU part: 35.413,85€; other sources: 6.249,50€) were identified. Amount of 35.790,16 € (EU part: 30.421,64 €; other sources: 5.368,52 €) has been corrected by Management structure/Operating structure before submitting financial statements to the Commission.

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

Residual total error rate after implementation of above-mentioned correctios is 12,73%.

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. No subsequent corrective actions performed.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

The conclusions of the audit regarding CBC Action Programme Montenegro – Albania 2018 are based on the information and documents gathered during the audit from beneficiaries and MCSS bodies, interviews conducted in the audited bodies and tests performed following the working papers and checklists for specific audit areas.

Based on the audit work performed we have obtained reasonable assurance that the expenditure declared in the amount of 556.129,55 € for allocation 2018 in the period 01/01/2025 – 31/12/2025 is in all material aspects, legal and regular, except expenditures described in the point 5.8. Total projected error on the overall population is 102.049,77€ and it is above the materiality threshold as presented in the table below:

No	Finding	Level of importance	Financial impact (EUR)
1	Ineligible expenditure related to the Budget line: 1. Human resources 2. Travel	Major	13,35
	Ineligible expenditure related to the Budget line: 3. Equipment 5. Other costs, services	Major	7.091,02
	Ineligible expenditure related to the Budget line: 6. Other	Major	34.558,98
2	Total random error		**41.663,35**
3	Amount of expenditure declared in reference period (01/01/2025-21/02/2025)		556.129,55
4	Materiality 2% of expenditure declared in reference period (tolerable misstatement) (3 * 2%)		**11.122,59**
5	Value of the sample tested		227.070,42
6	Sample error rate ((2/5)*100) %		**18,35%**
7	Projected random error (3*6)		**102.049,77**
8	Financial corrections relating to errors detected by AA		35.790,16
9	Amount certifiable in the accounts (3-8)		520.339,39
10	Residual amount at risk (7-8)		66.259,61
11	Residual Total Error Rate (RTER) (10/9)		**12,73%**

Although the total projected error rate is above the materiality level of 2%, the Audit Authority concluded that the assessment of the MCSS given during system audits performed in previous years as well as during the follow- up of findings which is in Category 2 (‘works, but improvements are needed’) shall remain the same.

Namely, with respect to the other allocations within the scope of the Programme Montenegro–Albania 2014–2020, as well as another operating programme implemented under indirect management in Montenegro by the same Operating Structure (CBC Programme Montenegro–Kosovo), the total error rate determined during the audit of operations performed in 2025 (CBC MNE–ALB allocation 2016; CBC MNE–KOS allocations 2018–2020), as well as in previous years, was below the materiality level.

Additionally, during the audit of operations for allocation 2018, errors were found only in one project (CFCU/MNE/220), while in another audited project within the sample (CFCU/MNE/217) no ineligible costs were identified.

Furthermore, during the system audits performed in previous years, the MCSS was assessed in Category 2 (“works, but improvements are needed”). Taking these mitigating factors into consideration and based on professional judgement, the Audit Authority concluded that the assessment of the MCSS should not be changed to a lower category.

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 2025-2027.

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 2025-2027, 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 13th February 2026 including the CBC Programmes “Montenegro-Albania” for years 2017-2020[2].

The amounts declared in the Annual Financial Report for 2025 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 2017	2017/ 038-175	999.974,67	0,00	999.974,67	176.466,10	0,00	0,00	51.282,77	0,00
CBC MNE-ALB 2018	2018/ 041-468	1.472.916,07	0,00	681.083,79	121.307,18	791.832,28	0,00	227.083,93	192.300,64
CBC MNE-ALB 2019	2019/ 041-470	340.988,49	0,00	167.574,21	29.571,92	173.414,28	0,00	1.019.011,51	79.321,27
CBC MNE-ALB 2020	2020/ 041-471	817.565,81	0,00	0,00	0,00	817.565,81	0,00	406.434,19	592.434,19

During the audit AA took into consideration the results of the audits performed in 2025 and results of follow up of findings issued in the previous audits.

[2] For allocations 2014 and 2015 NAO submitted Final Declarations to EC in 2023. For allocation 2016 Final Declaration was submitted in 2025.

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.

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 EU Part	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	For Reimbursement
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	0,00
CBC MNE-AL 2018**	1.700.000,00	305.144,47	Pre-financing Further pre-financing Final payment	1.472.916,06	1.472.916,06	0,00	0,00	1.472.916,06	1.472.916,06	1.472.916,06	1.472.916,06	1.472.916,06	1.472.916,06	192.300,64	681.083,79	0,00	676.091,58	1.472.916,06	1.472.916,06	1.472.916,06	1.472.916,06	681.083,79	0,00	791.832,27	0,00	796.824,48	4.992,21	0,00
CBC MNE-ALB 2019	420.309,76	74.172,31	Pre-financing Further pre-financing	340.988,49	340.988,49	0,00	0,00	340.988,49	340.988,49	340.988,49	340.988,49	340.988,49	340.988,49	79.321,27	167.574,21	0,00	167.574,21	340.988,49	340.988,49	340.988,49	340.988,49	167.574,21	0,00	173.414,28	0,00	173.414,28	0,00	0,00
CBC MNE-ALB 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	592.434,19	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	0,00

**** Column recovery:**	2018** The amount of recovery to be recognised by the CFCU, based on the findings from the audit of operations for 2025 = 9.86€ + 1.49€ + 6,027.37€ + 29,375.13€ = 35.413.85€ - 30,421.64€ (WAL Corection) = 4.992.21€

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 for the years 2017, 2019 and 2020.

As for CBC programme MNE-ALB for the year 2018, we have identified and documented the following audit finding:

- **Finding Nº 1: Influence on the completeness, accuracy and veracity of the Annual Financial Report for 2025**

***Level of priority**: Major*

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

Reviewing the Annual Financial Report for 2025 it has been determined that financial corrections identified during Audit of operation conducted during 2025 (for allocation 2018) have not been used into account.

Namely, in the Final Audit of Operation Report No: 01-908/26-363/5, dated on 29th January 2026, it is concluded that for Contract CFCU/MNE/220 costs are ineligible in total amount of 41.663,35€ (35.413,85€ EU Contribution and 6.249,50€ Private Contribution).

The identified ineligible amounts are summarized in the table below:

Contract	Ineligible amount €	EU Contribution €	Private Contribution €
allocation 2018			
CFCU/MNE/220	11,60	9,86	1,74
	1,75	1,49	0,26
	7.091,02	6.027,37	1.063,65
	34.558,98	29.375,13	5.183,85
Total	**41.663,35**	**35.413,85**	**6.249,50**

CFCU partially accepted given recommendation during audit of operations. CFCU financial corrections are summarized in the table below:

Contract	Ineligible amount €	EU Contribution €	Private Contribution €
allocation 2018			
CFCU/MNE/220	11,60	9,86	1,74
	1,75	1,49	0,26
	1.418,20	1.205,47	212,73
	34.358,61	29.204,82	5.153,79
Total	**35.790,16**	**30.421,64**	**5.368,52**

Based on the above-mentioned tables it is evident CFCU didn't reject total amount of ineligible costs.

Additionally, it is evident that NF didn't use into account total amount of ineligible expenditure prescribed in the Final Audit Operation Report during issuing Annual Financial Report for 2025. Cost recognised in

Annual Financial Report for 2025 for CBC Programme "Montenegro-Albania" for the year 2018 are corrected on the basis of corrections made by CFCU in amount of 35.790,16 € (30.421,64 € EU Contribution and 5.368,52€ Private Contribution).

In respect to the findings prescribed in the Final Audit of Operation Report for CBC Programme "Montenegro-Albania" for the year 2018 we concluded that Annual Financial Report for 2025 (column: Cost recognised and Open pre-financing) have not been corrected in amount of 5.873,19€ (EU Contribution: 4.992,21€; Private Contribution: 880,98€).

Recommendation:

We recommend to the CFCU to issue Notification letter to the relevant coordinators/beneficiaries and/or Updated Written Approval Letters with modification of the total cost recognised and insert relevant documents into the SAP.

We recommend to the NF to use into account ineligible expenditure prescribed in the Final Audit Operation Report during issuing Annual Financial Report. Financial correction must be included in next declaration/financial reports.

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 audits performed during 2025 and results of follow up of findings issued in the previous audits.

System audits performed in previous years have not resulted in financial corrections regarding the reference period and have not affected the accuracy of the Annual Financial Reports for 2025.

The audit findings issued within the audit of operation performed in 2025 for allocation 2018 with financial correction in totally amount of 41.663,35 € (35.413,85€ EU part and 6.249,5€ private contribution) have influence on the completeness, accuracy and veracity of the Annual Financial Reports for 2025 for CBC Programme ″Montenegro-Albania″ for the year 2018. Costs recognised and Open pre-financing in the Annual Financial Report for 2025 have been corrected for the amount of 35.790,16€ (30.421,64€ EU part and 5.368,52€ private contribution). Amount of 5.873,19€ (4.992,21€ EU part and 880,98€ private contribution) is not corrected.

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 2025, except amounts of Cost recognised and Open pre-financing (4.992,21€ EU part and 880,98€ private contribution) related to the CBC Programme "Montenegro-Albania" for the year 2018.

Correction which should be made are below materiality level of 2% (16.047,82 € for Cost recognised and 15.836,65 € for Open pre-financing).

As for CBC Programme "Montenegro-Albania" for the years 2017, 2019 and 2020 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 2025.

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 the February 2026 Audit Authority in cooperation with Albanian GoA members performed follow up of recommendation related to open findings from the previous years, as separate activity before issuing the AAAR and AAO. Follow up covered the findings and recommendations given during system audit, audit of operations and audit of accounts. 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 February 2026	New deadline
1.	Deficiency in the MoP Written Procedures	NAOSO	***Not implemented*** It is evident that NAOSO staff is continuously working on improving the MoP. The MoP (version 2.0) has been updated regarding the Chapters: Irregularities and NF Financial Management, and it is clear that exceptions to the procedures have been issued. However, bearing in mind the AA auditors' recommendations from previous audits (system, operation and accounts) regarding the modification of the MoP for all IPA OS Bodies, as well as the numerous exceptions to the procedures, the recommendation remains the same. Level of priority: *Minor*	6 months
2.	Inadequate backup of data and insufficient number of trainings related to IT	NAOSO IA/CFCU	***Not implemented***	3 months

			It is evident that both MS and CFCU staff is continuously working on implementation of given recommendations. However, adequate back up of data still has not been ensured and risk of loss still persist. Finding remains open. Level of priority: *Minor*	
Nº	**Findings identified during the System audit 2019**	**Body**	**Status in February 2026**	**New deadline**
	No open findings			
Nº	**Findings identified during the System audit 2020**	**Body**	**Status in February 2026**	**New deadline**
	No open findings			
Nº	**Findings identified during the System audit 2021**	**Body**	**Status in February 2026**	**New deadline**
1.	Technical errors observed in process of control and supervision of grant beneficiaries' financial reports and payment requests	CFCU	***Not implemented*** Based on the reviewed documents related to approval of payment request, it was evident that: 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. The MoP (version 2.1) still has not been updated in order to include the requirement for the signing the Checklists by the Head of CFCU. This part of recommendation remains open. Level of priority: *Intermediate*	3 months
Nº	**Findings identified during the System audit 2022**	**Body**	**Status in February 2026**	**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. The finding remains open. Level of priority: *Major*	Immediately
Nº	**Findings identified during the System audit 2023**	**Body**	**Status in February 2026**	**New deadline**
1.	Mistake related to the calculation of the Relevance of the action	CFCU	***Partly 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 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. Considering that there will be no further calls under IPA II Programe "Montenegro-Albania", and that the 1st Call for Proposals for IPA III Programe "Montenegro-Albania" is ongoing, this finding will be monitored through the application of similar procedures and adherence to the "four-eyes" principle. Additionally, given that no errors were detected for the 1st Call (Step 1) under IPA III, the auditors concluded that the CFCU has made additional efforts to implement the recommendations.	During next evaluation process

			Level of priority: *Major*	
Nº	**Findings identified during the System audit 2024**	**Body**	**Status in February 2026**	**New deadline**
1.	Non-compliance with procedures prescribed in the Manual of Procedures	CFCU	***Partly implemented*** Based on the submitted documents/evidence it is concluded that: 1. Invoice Registers and Financial Report Registers are updated at the same time that payment requests and/or financial reports are received. 2.reconciliation procedures between CFCU and Beneficiaries were conducted on 12th January 2026 according to AA recommendation. This part of finding is closed. However, MoP (version 2.1) has not been updated and exception procedures have not been prepared in accordance with the auditors' recommendations. MoP should be updated to set the reconciliation deadline between CFCU and Beneficiaries for the previous year to January 15th. Until its formal adoption, the CFCU advises issuing an Exception to the procedures to apply this deadline immediately. Level of priority: *Minor*	3 months
2.	Failure to organize meetings with the Control Body	CFCU	***Not implemented*** It is evident that, starting from June 2025, the CFCU has not organized any meetings with the Control Body. Delays in cost verification are still evident, and the NAO has formally highlighted weaknesses in institutional communication and coordination through a formal reservation in the AMD. Finding remains open. Level of priority: *Intermediate*	3 months

Out of the 7 findings that remained open after the previous Annual Audit Activity Report, none were 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 February 2026	New deadline
	No open findings			
Nº	**Findings identified during the System audit 2023**	**Body**	**Status in February 2026**	**New deadline**
1.	Delays in expenditure verification process for the contracts CFCU/MNE/162 and CFCU/MNE/157	CB CFCU	***Not implemented*** Although it is evident that Control Body made efforts in implementing of the recommended measures, deadlines for verifications of expenditures have been breached. However, bearing in mind that implementation of contracts from allocation 2016 have been completed this issue and implementation of the recommendations will be monitored through CBC Programme MNE-ALB for allocations 2017-2020. Level of priority: *Intermediate*	3 months
2.	Procedure for the approved exceptions not included in the PLCP	NAO HOS MNE HOS ALB	***Not implemented*** The finding concerns the lack of alignment between the Programme-Level Control Procedures (PLCP) and the Exception Request Forms (ERFs) approved during 2022–2023 under the IPA II CBC Programme Montenegro–Albania. Specifically, 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	3 months

			The finding is still open because same required changes in IPA II PLCP version 1.1 have not been reflected. Level of priority*: Intermediate*	
Nº	**Findings identified during the System audit 2024**	**Body**	**Status in February 2026**	**New deadline**
1.	Lack of Involvement of the Control Body in the Preparation of the Communication and Visibility Plan	HOS/CBC Body Albania, CB	***Implemented*** The Communication and Visibility Plan (CVP) was subject to a Written Procedure launched on 26 January 2026 and open for consultation until 6 February 2026. The document was formally adopted on 7 February 2026. Within this Written Procedure, the Control Body was included as part of the Joint Monitoring Committee (JMC) distribution list and was therefore duly involved in the consultation process. This inclusion ensures that the Control Body was formally informed and had the opportunity to provide input, which can be considered as appropriate communication and involvement in the development and review process of the CVP. The finding is closed.	
Nº	**Findings identified during the System audit 2024**	**Body**	**Status in February 2026**	**New deadline**
	No open findings.			

Regarding the Albanian bodies, out of the 3 findings that remained open after the previous Annual Audit Activity Report, one was closed during the follow up.

Status of audit of operation findings:

Nº	**Findings identified during the Audit of operation 2019**	**Body**	**Status in February 2026**	**New deadline**
1.	Procedures for control of	CFCU	***Not implemented*** Controllers do not perform administrative verification of	Until the approval of the next/Final Progress

	eligibility of expenditure		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. Finding remains open. Level of priority: *Intermediate*	Financial Report
N^{o}	**Findings identified during the Audit of operation 2022**	**Body**	**Status in February 2026**	**New deadline**
1.	Un-respected procedures related to the retention of documents	CFCU	***Not implemented*** Based on the File Folder for the Contract, requested randomly, during previous audit during 2025, Audit Authority auditors were not convinced of the existence of an audit trail (both hard copies of documents and their electronic versions). Finding remains open. Level of priority: *Intermediate*	3 months
2.	Delays in further pre-financing payment to the coordinator	CFCU CB	***Not implemented*** Delays in the verification and payment processes related to contract CFCU/MNE/164 were attributed primarily to: - incomplete and late submissions of financial reports by the project beneficiary, as well as - Inefficient communication between CA and CB regarding the route of transmission of original documents. Taking into account that verification of expenditure for Contract CFCU/MNE/164 have been finished,	Immediately

			the recommendations will be followed through verification on expenditure and for contracts for allocations 2018-2020. Finding remains open. Level of priority: *Major*	
Nº	**Findings identified during the Audit of operation 2023**	**Body**	**Status in February 2026**	**New deadline**
1	Deficiencies in implementation of On-the-spot verification by CFCU	CFCU	***Not implemented*** During the audit period (2025) under allocation 2018, it is evident that the CFCU conducted on-the-spot verification. Based on the submitted OTSV report and Checklist, it is clear that the CFCU Controllers did not check the project-purchased equipment. Additionally, MoP (version 2.1) has not been updated and exception procedures have not been prepared in accordance with the AA auditors recommendations. 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**

Out of 4 findings that remained open after the previous Annual Audit Activity Report, none were closed during the follow up.

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.

Regarding CBC Programme Montenegro - Albania for the years 2017, 2019 and 2020 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 2025 for indicated financial allocation. The assurance on the proper functioning of the management and control system is based only on the result of the follow-up of the findings given in the previous years 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 and disclaimer of opinion on the legality and regularity of expenditure for the CBC Programme Montenegro-Albania for the years 2017, 2019 and 2020.

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 2025, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account for allocation 2017, 2019 and 2020.

As for CBC Programme Montenegro-Albania for the year 2018 the assurance on the proper functioning of the management and control system is based on the combined results of both the follow up of the findings given in the previous years (system assessment – please see section 4 above) and the audit of operations (total error rate – please see section 5 above).

On the basis of results of follow up of findings MCSS is classified in Category 2 (Works, but some improvement(s) are needed). However, bearing in mind that total error rate determined during the audit of operation is above the materiality level, we will issue a qualified opinion on the proper functioning of the system and on the legality and regularity of expenditure for CBC Programme MNE-ALB for the years 2018 with significant impact of the qualifications 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 2025, it is appropriate to issue an unqualified opinion on the reliability of Annual Financial Reports or Statements/Annual Account for allocation 2018.

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.

Total error rate determined during the audit of operation for CBC Programme Montenegro – Albania 2018 is 18,35 % and it is above materiality level. It indicates deficiency in the functioning of MCS especially in Implementing Agency/CFCU regarding the implementation of procedures for verifying the eligibility of expenditure considering that CFCU approved expenditure related to tender procedures, which did not comply with PRAG rules and MoP (Chapter: Contract Implementation and OTSC) and without relevant supporting documents MoP (Chapter: Financial Management).

With respect to the other allocations within the scope of the Programme Montenegro–Albania 2014–2020, as well as another operating programme implemented under indirect management in Montenegro by the same Operating Structure (CBC Programme Montenegro–Kosovo), the total error rate determined during the audit of operations performed in 2025 (CBC MNE–ALB allocation 2016; CBC MNE–KOS allocations 2018–2020), as well as in previous years, was below the materiality level.

Additionally, during the audit of operations for allocation 2018, errors were found only in one project (CFCU/MNE/220), while in another audited project within the sample (CFCU/MNE/217) no ineligible costs were identified.

Furthermore, during the system audits performed in previous years, the MCSS was assessed in Category 2 (“works, but improvements are needed”). Taking these mitigating factors into consideration and based on professional judgement, the Audit Authority concluded that the assessment of the MCSS should not be changed to a lower category.

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 audit of operation for allocation 2018 are presented in Chapter 5 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 2025 for allocations 2017, 2019 and 2020, the Audit Authority has not been in position to perform audit of transactions/operations regarding the financial year 2025.

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.

During the audit of operations regarding allocation 2018 errors in the total amount of 41.663,35 € (EU part: 35.413,85€; other sources: 6.249,50€) were identified. Amount of 35.790,16 € (EU part:30.421,64 €, other sources: 5.368,52 €) has been corrected by Management structure/Operating structure before submitting financial statements to the Commission for the year 2025.

Residual total error rate after implementation of above-mentioned correctios is 12,73%.

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 2018/041-468	CBC Programme Montenegro-Albania 2018	556.129,55 €	227.070,42 €	40,83 %	5	2	41.663,35 €	18,35%	102.049,77€ 18,35%	35.790,16 €	66.259,61€ 12,73 %	/	/