



**MONTENEGRO
AUDIT AUTHORITY**

No: 01/908/25-164

Date: March 14th, 2025

**ANNUAL AUDIT ACTIVITY REPORT
FOR
2015-2017 SECTORAL OPERATIONAL PROGRAMME FOR
MONTENEGRO ON EMPLOYMENT, EDUCATION AND SOCIAL
POLICIES (SOPEES)
(CRIS No 2015/037-895)**

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

1. INTRODUCTION	6
1.1. DETAILS OF THE RESPONSIBLE AUDIT AUTHORITY AND OTHER BODIES THAT HAVE BEEN INVOLVED IN PREPARING THE REPORT	6
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)	6
1.3. IDENTIFICATION OF THE SECTOR/POLICY AREA(S) COVERED BY THE REPORT AND OF ITS/THEIR OPERATING STRUCTURE AND MANAGEMENT STRUCTURE	9
1.4. DESCRIPTION OF THE STEPS TAKEN TO PREPARE THE REPORT AND TO DRAW THE AUDIT OPINION	10
2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS	11
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	11
2.2. THE DATES FROM WHICH THESE CHANGES APPLY, THE DATES OF NOTIFICATION OF THE CHANGES TO THE AUDIT AUTHORITY, AS WELL AS IMPACT OF THESE CHANGES ON THE AUDIT WORK ARE TO BE INDICATED	13
3. CHANGES TO THE AUDIT STRATEGY	13
3.1. DETAILS OF ANY CHANGES THAT HAVE BEEN MADE TO THE AUDIT STRATEGY OR ARE PROPOSED, AND OF THE REASONS FOR THEM	13
3.2. THE AUDIT AUTHORITY DIFFERENTIATES BETWEEN THE CHANGES MADE OR PROPOSED AT A LATE STAGE, WHICH DO NOT AFFECT THE WORK DONE DURING THE REFERENCE PERIOD AND THE CHANGES MADE DURING THE REFERENCE PERIOD, THAT AFFECT THE AUDIT WORK AND RESULTS	13
4. SYSTEM AUDITS	14
4.1. DETAILS OF THE BODIES THAT HAVE CARRIED OUT SYSTEM AUDITS, INCLUDING THE AUDIT AUTHORITY ITSELF	14
4.2. SUMMARY TABLE OF THE AUDITS CARRIED OUT	15
4.3. DESCRIPTION OF THE BASIS FOR SELECTION OF THE AUDITS IN THE CONTEXT OF THE AUDIT STRATEGY	19
4.4. DETAILS OF THE AUDITS CARRIED OUT	21
4.4.1. DESCRIPTION OF THE PRINCIPAL FINDINGS AND THE CONCLUSIONS DRAWN FROM THE AUDIT WORK FOR THE MCSs AND THEIR FUNCTIONING, INCLUDING THE SUFFICIENCY OF MANAGEMENT CHECKS, ACCREDITATION PROCEDURES AND AUDIT TRAIL, ADEQUATE SEPARATION OF FUNCTIONS AND COMPLIANCE WITH UNION REQUIREMENTS AND POLICIES	21
4.4.1.1. SYSTEM AUDIT - MULTI-ANNUAL ACTION PROGRAMME FOR MONTENEGRO ON EMPLOYMENT, EDUCATION AND SOCIAL POLICIES 2015-2017 (2015/037-895).	21
4.4.1.2. THEMATIC AUDIT: SYSTEM AUDIT OF THE EFFICIENT AND EFFECTIVE FUNCTIONING OF INTERNAL AUDIT OF EU FUNDS IN MINISTRY OF FINANCE	25
4.4.2. DETAILS OF WHETHER ANY PROBLEMS IDENTIFIED WERE CONSIDERED TO BE OF A SYSTEMIC CHARACTER	29
4.5. DESCRIPTION OF SPECIFIC DEFICIENCIES RELATED TO THE MANAGEMENT OF FINANCIAL INSTRUMENTS, DETECTED DURING SYSTEMS AUDITS AND OF THE FOLLOW-UP GIVEN BY THE NATIONAL AUTHORITIES TO REMEDY THESE SHORTCOMINGS	29
4.6. LEVEL OF ASSURANCE OBTAINED FOLLOWING THE SYSTEM AUDITS (LOW/AVERAGE/HIGH) AND JUSTIFICATION	29
5. AUDITS OF SAMPLES OF TRANSACTIONS	30
5.1. AUTHORITIES/BODIES THAT CARRIED OUT THE SAMPLE AUDITS, INCLUDING THE AUDIT AUTHORITY	31
5.2. DESCRIPTION OF THE SAMPLING METHODOLOGY APPLIED AND INFORMATION WHETHER THE METHODOLOGY IS IN ACCORDANCE WITH THE AUDIT STRATEGY	31
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	31

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 -----	31
5.5. WHERE THERE ARE NEGATIVE ITEMS, CONFIRMATION THAT THEY HAVE BEEN TREATED AS A SEPARATE POPULATION-----	31
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 -----	31
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) -----	32
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 -----	32
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-----	32
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 -----	32
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. -----	32
5.12. RESIDUAL TOTAL ERROR RATE FOLLOWING THE IMPLEMENTATION OF THE ABOVE-MENTIONED CORRECTIONS AND SIGNIFICANCE FOR THE AUDIT OPINION. -----	32
5.13. INFORMATION ON THE RESULTS OF THE AUDIT OF THE COMPLEMENTARY (E.G. RISK BASED) SAMPLE, IF ANY.	32
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 -----	33
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 -----	33
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 -----	33
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-----	33
5.18. CONCLUSIONS DRAWN FROM THE RESULTS OF THE AUDITS WITH REGARD TO THE EFFECTIVENESS OF THE MANAGEMENT AND CONTROL SYSTEM -----	33
6. AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS - 33	
6.1. INDICATION OF THE AUTHORITIES/BODIES THAT HAVE CARRIED OUT AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS-----	33

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	33
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 FOLLOW-UP TO THE RESULTS OF THE AUDIT ON TRANSACTIONS/OPERATIONS.....	43
6.4. INDICATION OF WHETHER ANY PROBLEMS IDENTIFIED WERE CONSIDERED TO BE SYSTEMIC IN NATURE, AND THE MEASURES TAKEN	43
7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY	44
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.	44
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.	101
8. OTHER INFORMATION.....	101
8.1. INFORMATION ON REPORTED FRAUD AND SUSPICIONS OF FRAUD, TOGETHER WITH MEASURES TAKEN	101
8.2. SUBSEQUENT EVENTS OCCURRED AFTER THE SUBMISSION OF THE DECLARATION OF EXPENDITURE AND FINANCIAL STATEMENTS AND BEFORE THE TRANSMISSION OF THE ANNUAL ACTIVITY REPORT	101
8.3. ANY OTHER INFORMATION THAT THE AUDIT AUTHORITY CONSIDERS RELEVANT AND IMPORTANT TO COMMUNICATE TO THE COMMISSION.....	101
9. OVERALL LEVEL OF ASSURANCE	101
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.....	101
9.2. ANALYSIS OF SIGNIFICANCE OF TOTAL ERROR RATE IN A CASE WHEN IT IS ABOVE THE MATERIALITY LEVEL	102
9.3. ASSESSMENT OF THE CORRECTIVE ACTION NECESSARY BOTH FROM A SYSTEM AND FINANCIAL PERSPECTIVE	102
9.4. ASSESSMENT OF ANY RELEVANT SUBSEQUENT ADJUSTMENTS MADE AND CORRECTIVE ACTIONS TAKEN	102
10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS.....	103

LIST OF ABBREVIATIONS

AA	Audit Authority of Montenegro
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AMD	Annual Management Declaration
CFCU	Central Finance and Contracting Unit
CPA	Capital Projects Administration
DG Near	Directorate General for Neighbourhood and Enlargement Negotiations
DMS	Directorate for management of the EU pre-accession funds structures at Ministry of Finance
DNF	Division for national fund and managing of accounts
EAM	Employment Agency Montenegro
EC	European Commission
EU	European Union
FWA	Framework Agreement
IA	Implementing Agency
ICFR	Internal Control Framework Requirement
IPA	Instrument for Pre-Accession Assistance
ISA	International Standards on Auditing
MCSS	Management, Control and Supervision System
MESI	Ministry of Education, Science and Innovation
MHMR	Ministry of Human and Minority Rights
MLSW	Ministry of Labour and Social Welfare
MLESD	Ministry of Labour, Employment and Social Dialogue
MSWFCD	Ministry of Social Welfare, Family Care and Demography
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 the Montenegro
OS	Operating structure
PIU	Project Implementation Unit
RfF	Request for Funds
SAP	System Analysis Programme
SOPEES	Sectoral Operational Programme on Employment, Education and Social policies
QAMR	Quarterly Action Monitoring Report

1. INTRODUCTION

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

The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of EU Funds (OG 14/12, 54/16, 37/17 and 70/17). The Audit Authority is responsible for audit of EU funds (IPA, Structural Funds after the accession of Montenegro to the European Union, and other EU funds). According to Article 3 of the Law on Audit of EU funds, the AA is functionally and operationally independent of all actors in EU funds management and control system.

The Law on Audit of EU Funds prescribes that auditees 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) - (OG MNE, No 5/2015) and in Commission Implementing Regulation (EU) No 447/2014 on the specific rules for implementing Regulation (EU) No 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-accession Assistance (IPA II).

The Audit Authority is responsible for verifying:

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

The Audit Authority submits an Annual Audit Activity Report (AAAR) and Annual Audit Opinion (AAO) following the model set out in Annexes D and E of the Framework Agreement.

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

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 on 1st January to 31st December 2024.

The audit activities performed in the audit period for the financial year were governed by the Audit Strategy 2024-2025.

Bearing in mind that during 2024 no expenditure was declared to EC, Audit Authority has not been in a position to perform audit of operations/samples of transactions regarding SOPEES. For the reference period the following audit activities were performed: **System audits, Audit of the annual financial reports for the year 2024 and assessment of the Management**

declaration and Follow-up activities.

Additionally, the Department for audit of the programs - employment, social policies, education, promotion of gender equality and development of human capacities based on the Request of Deputy of NAO (No: 08-908/24-530/1 from 22/10/2024), to support the NAO in the process of entrustment with budget implementation tasks (BIT) IPA III Operational Programme Montenegro 2024-2027 for the Employment and Social Inclusion (OP ESI) performed Compliance assessment of design of the management and control system set up in the Employment Agency of Montenegro as Intermediate Body for the Operational programme Employment and Social Inclusion (CID (2024) 5738 final).

As for the system audits the Audit Authority carried out:

- system audit of functioning of the Management, Control and Supervision System established for implementation of 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) under IPA II. In accordance with adopted Audit Strategy for period 2024-2025 and results of performed risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:
 - **Central Finance and Contracting Unit (CFCU) – Implementing Agency:** Information and Communication
 - **Capital Projects Administration (CPA) - Implementing Agency:** Information and Communication
 - **Ministry of Labour and Social Welfare (MLSW)– PIU:** Information and Communication¹
 - **Ministry of Labour, Employment and Social Dialogue (MLES)-PIU:** Information and Communication²
 - **Ministry of Social Welfare, Family Care and Demography³(MSWFCD)-PIU:** Information and Communication
 - **Ministry of Education, Science and Innovation (MESI) – PIU:** Risk management; Information and Communication
 - **Ministry of Human and Minority Rights (MHMR) – PIU:** Information and Communication
 - **NIPAC Office:** Risk management

Also, the follow up of the findings and recommendations given in the course of previous audits was included in the system audit engagement.

- thematic system audit of the efficient and effective functioning of internal audit of EU Funds in Ministry of Finance ⁴

For more details about scope of system audits carried out, see sections 4.2 and 4.4.

¹ Decree on the organization and manner of work of the state administration was adopted on 27 th July 2024. By the mentioned Decree Ministry of Labour and Social Welfare was divided into two Ministries: Ministry of Labour, Employment and Social Dialogue and Ministry of Social Welfare, Family Care and Demography. PIU in new MLES is in charge for Action 1. PIU In new MSWFCD is in charge for activities 3.1 and 3.2 within Action 3 and Action 4.

² See footnote1

³ See footnote1

⁴ Internal Audit Department of EU funds established in Ministry of Finance - for all IPA II and IPA III Programmes and bodies except IPARD Managing Authority and IPARD agency.

In the context of audit of annual financial reports or statements/annual accounts at the end of February and beginning of March 2025, Audit Authority performed audit of the annual financial reports for the year 2024 and assessment of the Management declaration for the respective Programme.

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

The summarized data regarding the total amounts contracted, decommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which were submitted in the AFR for 2024, are presented in the table below:

Sectoral Operational Programme for Employment, Education and Social policies 2015-2017		
Financing Agreement CRIS No 2015/037-895		
Total Amount Contracted	EU contribution	14,701,226.95
	National contribution	2,594,334.14
	Other sources	1,088,861.51
Total Amount Decommitted on closure	EU contribution	N/A
	National contribution	N/A
	Other sources	N/A
Total Amount Disbursed	EU contribution	13,736,191.02
	National contribution	2,424,033.68
	Other sources	0.00
Total Costs Recognized	EU contribution	13,531,835.35
	National contribution	2,387,970.90
	Other sources	1,002,412.15
Total Open Pre-financing	EU contribution	0.00
	National contribution	0.00
	Other sources	0.00
Recovery context	Errors	0.00
	Irregularities	0.00
	Fraud	0.00
	No context	158,908.39
Bank Balances (EU contribution)	Total	1,641,221.00

Table 1

During the audit AA verified whether the Annual Financial Reports/Financial Statements give a true and fair view as well as the completeness, accuracy and veracity of the annual financial reports or statements and the underlying annual accounts. For more details about audit of accounts see sections 6.2 and 6.3.

As for the Follow up activities, the AA performed follow up of findings and recommendations given in the course of previous audits, as well as follow-up of the findings and

recommendations issued by external audits, i.e. Moore Stephens' Audit on information security (ICT) and BDO's Audit on Internal Audit Capacities (IAC) presented in detail in section 7.1 of this Report.

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

The report covers Multi-annual action programme for Montenegro on Employment, Education and Social policies 2015-2017 (2015/037-895).

The main aim of the program is to provide the developed and cohesive society through provision of better conditions for raising levels of employability of citizens, improvement of quality of formal and non-formal education and lifelong learning, with social inclusion of persons in disadvantaged position and decrease of poverty risk. Determined funds are planned for implementation of 4 actions (priority axes):

- Action 1 – Improving the Labour Market and Increasing Employability
- Action 2 – Enhancing the Education System
- Action 3 – Improving Social Inclusion and
- Action 4 – Technical assistance.

Financing Agreement for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (2015/037-895) was signed on 12th July 2018.

Addendum of Financing Agreement between the Government of the Montenegro and the Commission of the European Communities concerning the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies signed on 28th August 2020.

The total estimated cost of Programme is EUR 18.000.000,00 and the maximum Union contribution to this Programme is set at EUR 15.300.000,00.

The authorities responsible for implementation of the IPA II 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES) are as follows:

- National IPA Coordinator of Montenegro (NIPAC),
- The National Authorizing Officer of Montenegro (NAO);
- Management Structure with two separate divisions, one for financial issues (Division for National Fund) and one for the support to the NAO (Division for System Supervision) and
- The Operating Structure (OS) composed of: NIPAC office, Implementing Agencies: Central Finance and Contracting Unit (CFCU) and Capital Projects Administration (CPA), Project Implementation Units (PIUs) of the line ministries: Ministry of Labour and Social Welfare (MLSW)/; Ministry of Labour, Employment and Social Dialogue (MLESD)/Ministry of social welfare, Family Care and Demography⁵, Ministry of Education, Science and Innovation (MESI) and Ministry of Human and Minority Rights (MHMR).

⁵ See footnote 1

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

In order to prepare the AAAR and issue the Annual Audit opinion (hereinafter AAO), the Audit Authority has processed, summarised and assessed the findings and recommendations included in the reports on audits performed in accordance with Audit strategy 2024-2025 and carried out a follow-up to assess the time proportional to implementation of audit recommendation.

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

With a view to drawing up an audit opinion, the Audit Authority assessed results of audit activities from the performed system audits of management, control and supervision system performed during 2024, results of follow up of the findings and recommendations given in the course of previous audits, results of audit of annual financials reports for 2024 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 the Annual Audit Activity Report and the Annual Audit Opinion.

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

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

The AA regularly monitored and gathered information on changes in the Management, Control and Supervision System (MCSS) and we reported on significant changes in MCSS in our AAARs.

In this AAAR we described significant changes occurred during 2024.

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

During 2024 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system by Letter No: 908/24-95/1 from February 27th 2024 and Letter No 08-908/24-366/1 from July 19th 2024, via e mail communication with DG ENEST (DG NEAR) as well as during DG Near mission held during 2024.

Organizational changes

Decree on changes of Decree on the organisation and manner of work of the state administration by the the Government of Montenegro was adopted at the session held on 18th January 2024. The mentioned Decree has changed the organization of the entire state administration, reflecting on IPA units within reorganized ministries. By the mentioned Decree Ministry of Labour and Social Welfare was divided into two Ministries: Ministry of Labour, Employment and Social Dialogue and Ministry of Social Welfare, Family Care and Demography (PIUs).

Personal changes

➤ 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.

Mr. Božović performed the function of NIPAC until the government reorganization on 23rd July 2024, after which the position remained vacant until the end of 2024. However, Ms Maida Gorčević, Minister of European Affairs was appointed the NIPAC at the Government session held on February 6th 2025.

➤ 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 of EU financial assistance within Ministry of European Affairs /Deputy NIPAC.

➤ **National Authorising Officer**

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

➤ **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. At 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.

➤ **Head of NAO Support Office**

On 19th August 2024 Ms Ivana Ćupić was appointed the Head of NAO Support Office.

➤ **Head of Directorate for Finance and Contracting of the EU Assistance Funds**

At the session held on 14th December 2023, the Government of Montenegro terminated the mandate of the Director General of Directorate for Finance and Contracting of the EU Assistance Funds – Ms Jelena Davidović. At the session held on 11th January 2024, Ms Sanja Bečanović was appointed the Acting Director General. At the Government sessions held on July 18th 2024 and on December 30th 2024, she was re-appointed the Acting Director General/Head of IA CFCU.

➤ **Head of Sector for the realization of IPA project within IA CPA**

The term of office of Mr Naim Gjokaj, the Head of the Sector for the implementation of IPA projects, acting Deputy Director of CPA, was terminated on January 24th 2024. This position is currently vacant.

➤ **SPO in the Ministry of Labour and Social Affairs (former Ministry until July 2024)**

Ms Kana Tomašević, was appointed to the SPO function during the Government session held on April 18th 2024. She left the position of SPO based on the Government decision of June 18th 2024.

➤ **SPO in the Ministry of Labour, Employment and Social Dialogue**

Ms Anđela Bašović was appointed the State Secretary/SPO during Government session held on August 1st 2024. Further **Ms Ivana Šućur** was appointed the Acting Director General of Directorate for EU funds, European Integration and International Cooperation at the Government session held on December 5th 2024.

➤ **SPO in the Ministry of Social Welfare, Family Care and Demography**

SPO function in MSWFCD is performed by the State Secretary **Ms Mersida Aljićević**,

appointed at Government session held on December 19th 2024.

➤ **SPO in PIU in the Ministry of Education, Science and Innovation**

At the Government session held on March 25th 2024 Mr Marko Vukašinović was appointed on a position of the SPO within PIU MESI. Mr Marko Vukašinović was appointed the Director General/SPO/Head of IBPM within MESI at the Government session held on 25th October 2024.

2.2. The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as 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.

During 2024 the NAO/Deputy NAO informed the European Commission and Audit Authority about substantial and planned changes in the system by Letter No: 908/24-95/1 from February 27th 2024 and Letter No 08-908/24-366/1 from July 19th 2024, via e mail communication with DG ENEST (DG NEAR) as well as during DG Near mission held in 2024.

Personnal changes have been assessed by Audit Authority and we can confirm their compliance with Article 7 of Commission Implementing Regulation (EU) No 447/2014. These changes do not have an impact on the audit work.

3. CHANGES TO THE AUDIT STRATEGY

3.1. Details of any changes that have been made to the audit strategy or are proposed, and of the reasons for them

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

The Audit Strategy for IPA II 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES) was prepared and submitted to the European Commission with a copy to the NAO in November 2023. The Audit Strategy was prepared for period 2024-2025 following the model in Annex G of Montenegrin Framework Agreement and approved by Auditor General.

Until the moment of issuing this AAAR there were no any changes that have been made to the audit strategy or are proposed.

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

Not applicable.

4. SYSTEM AUDITS

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

The audit body that carried out system audits in 2024 is Audit Authority of Montenegro, Department for audit of the programs - employment, social policies, education, promotion of gender equality and development of human capacities. 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).

In accordance with the Law on Audit of EU Funds and the Audit Strategy 2024-2025 for the 2015-2017 Sectoral operational programme for Montenegro on Employment, Education and Social policies (SOPEES), the AA of Montenegro conducted an audit of the management, control and supervision system (hereinafter: MCSS) established in bodies being the part of the management and operating structure of the Programme: CFCU (Implementing Agency), CPA (Implementing Agency); PIUs: MLSW/MLESD/MSWFCD⁶, MESI and MHMR and Nipac Office.

Also, AA conducted thematic system audit of the efficient and effective functioning of internal audit of EU Funds in the Ministry of Finance.

Apart from the above mentioned, the Department for audit of the programs - employment, social policies, education, promotion of gender equality and development of human capacities in 2024 based on the Request of Deputy of NAO (No: 08-908/24-530/1 from 22/10/2024), to support the NAO in the process of entrustment with budget implementation tasks (hereinafter: BIT) IPA III Operational Programme Montenegro 2024-2027 for the Employment and Social Inclusion (hereinafter: OP ESI), performed Compliance assessment of design of the management and control system set up in the Employment Agency of Montenegro as Intermediate Body for the Operational programme Employment and Social inclusion (CID (2024) 5738 final). Final Report No 3011-1-06- 655/4 was issued and submitted to the NAO on 20/11/2024. Please find attached Final Report:



330 - Final Report -
Compliance assessm

⁶ See footnote 1

4.2. Summary table of the audits carried out

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body (-ies)	4. Date of the audit	5. Scope of the audit	6. Principal Findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
January – December 2024	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895 Multi-annual action programme for Montenegro on Employment, Education and Social policies	Audit Authority of Montenegro	IA CFCU IA CPA PIU MLSW MLESD MSWFCD PIU MESI PIU MHMR Nipac Office	June – December 2024	IAS: CFCU ICFR 4: 4a; 4b;4c CPA ICFR 4: 4a; 4b;4c PIUs: MLSW/MLESD/MSWFCD ICFR 4: 4a; 4b;4c MESI ICFR 2: 2a,2b,2c,2d ICFR 4: 4a; 4b;4c MHMR ICFR 4: 4a; 4b;4c Nipac Office ICFR 2: 2a,2b,2c,2d	1. Risk on inadequate and incomplete information and reporting of sustainability of projects-All PIUs; Nipac Office	/	/	Open
						2. Non-functioning of web site of CFCU and Electronic Contract Execution System-IA-CFCU	/	/	Open
						3. Absence of publication of e mail address for anonymously report irregularities-IA-CPA	/	/	Open
						4. Lack of information and inadequate risk response- NAO; CPA; CFCU and PIU-MESI	/	/	Open
	Annual Country Action Programmes for Montenegro:	Audit Authority of Montenegro	Internal Audit Unit Department for Internal Audit of EU Funds in	April-June 2024	Efficient and effective functioning of internal audit of EU Funds in	1. Lack of employees in IAD	/	/	Open

Annual Audit Activity Report

-CAP 2014 – C(2014) 9387 -CAP 2016 – C(2016)8226 CAP 2017 – C(2017/040-216;2017/03 9-816) -CAP 2018 (No (CRIS) IPA/2018/04 0-218 and IPA/2018-040-220) -CAP 2020 (No (CRIS) IPA/2020/04 2-142 and IPA/2020-042-145) IPA II 2014-2020 CrossBorder Cooperation Programmes: MontenegroAlbania (C (2014) 9352) CRIS No: 2014/037-593 2015/038-158 2016/038-174 2017/038-175 2018/041-468 2019/041-470 2020/041-471 Montenegro-Kosovo (C (2014) 9307) CRIS No:	the Public Sector in the Ministry of Finance			Ministry of Finance ⁷				
					2. Internal audit Charter	/	/	Open
					3. Strategic and Annual Plans	/	/	Open
					4. Policies and procedures/Methodology	/	/	Open

⁷ horizontal thematic audit/ Internal Audit Department of EU funds established in Ministry of Finance - for all IPA II and IPA III Programmes and bodies except IPARD Managing Authority and IPARD agency

Annual Audit Activity Report

2014/037-592 2015/038-161 2016/038-182 2017/038-183 2018/041-472 2019/041-474 2020/041-475 IPA III Programmes Annual Action Plan 2021 DEC.043 663.01 IPA III 2021- 2027 CrossBorder Cooperation Programmes MontenegroAlbania ACT-60806 2022 JAD.976622 2025 JAD.976628 2027 JAD.976631 Montenegro – Kosovo ACT-60805 2022 JAD.974967 2024 JAD.974968 2026 JAD.974971 Multi-annual action programme for Montenegro on Employment, Education and Social policies C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895									
						5. Engagement supervision	/	/	Open
						6. Engagement supervision Intermediate 3.2.6 Open 7. Trainings	/	/	Open
						9.Shortcomings related to transactions/reports of information system	/	/	Open

Table 2

✓ **System audit of functioning of the Management, Control and Supervision System established for implementation of 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) under IPA II:**

Based on level of implementation of 2015-2017 SOPEES, available AA's resources and all collected information and documentation as well as the results of risk assessment, the following bodies being part of the management, control and supervision system and key requirements were covered by the system audit:

1) Central Finance and Contracting Unit (CFCU) – Implementing Agency:

- 4 (a) Information to support functioning of internal controls;
- 4 (b) Internal communication;
- 4 (c) External communication.

2) Capital Projects Administration - Implementing Agency:

- 4 (a) Information to support functioning of internal controls;
- 4 (b) Internal communication;
- 4 (c) External communication.

3) Ministry of Labour and Social Welfare (MLSW)/ Ministry of Labour, Employment and Social Dialogue (MLESD) and Ministry of Social Welfare, Family Care and Demography (MSWFCD) – PIU:

- 4 (a) Information to support functioning of internal controls;
- 4 (b) Internal communication;
- 4 (c) External communication.

4) Ministry of Education, Science and Innovation – PIU:

- 2 (a) Objective setting;
- 2 (b) Risk identification, assessment and response
- 2 (c) Fraud risk;
- 2 (d) Identification and assessment of changes affecting the system of internal controls;
- 4 (a) Information to support functioning of internal controls;
- 4 (b) Internal communication;
- 4 (c) External communication.

5) Ministry of Human and Minority Rights – PIU:

- 4 (a) Information to support functioning of internal controls;
- 4 (b) Internal communication;
- 4 (c) External communication.

6) Nipac Office

- 2 (a) Objective setting;
- 2 (b) Risk identification, assessment and response
- 2 (c) Fraud risk;
- 2 (d) Identification and assessment of changes affecting the system of internal controls

Additionally, during this audit engagement we performed the follow up of the implementation of recommendation related to open findings from previous audits, which is constituent part of the Final system audit report.

The system audit encompassed the period from January-December 2024. The Final Audit Report was issued and submitted to National Authorising Officer on 28th January 2025.

✓ **Thematic system audit of the efficient and effective functioning of internal audit of EU Funds in Ministry of Finances:**

Based on all collected information and the performed risk assessment during planning of audit engagement the following were included in the audit scope:

- IAD of EU Funds in Ministry of Finance and
- Central Harmonization Unit – Ministry of Finance; related to its jurisdiction to work of IAD.

The Final Audit Report was issued and submitted to the National Authorising Officer (NAO) on 21st June 2024.

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

Considering the requirements of the IPA regulations and Framework Agreement, the AA used a risk-based audit approach for system audits.

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 2024-2025 the Audit Authority performed a detailed risk assessment to determine the bodies and ICFRs which will be covered by system audit. Additionally, in order to define the sub-criteria within each ICFR which will be encompassed by the appropriate audit activities in particular body, we performed risk assessment at the level of each requirement during system audit engagement planning.

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

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

During the preparation of Audit Strategy, risks were identified and taken into account at the programme/structure and authorities' level while during system audit engagement planning phase risk assessment was performed at the level of each key requirement. Specific risk factors have been assessed for each body and ICFR. 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 had been ranked according to the total score.

Based on the results of the performed risk assessment, the following bodies and key requirements/ICFRs were covered by the system audit:

- **CFCU/IA:** Information and Communication
- **CPA/IA:** Information and Communication
- **MLESD (former MLSW)/PIU:** Information and Communication
- **MSWFCD (former MLSW)/PIU:** Information and Communication
- **MESI/PIU:** Risk management; Information and Communication
- **MHMR/PIU:** Information and Communication
- **NIPAC Office:** Risk management

Additionally, during preparation of system audit engagement, we performed the risk assessment in order to identify whether the ICFR selected are still risky and to assess which sub-criteria will be covered by the audit.

Therefore, based on the audit strategy, understanding of audit environment and performed risk assessment, bodies and requirements defined in the Annex B of the FWA which were covered during the system are given in table below.

ANNEX B INTERNAL CONTROL FRAMEWORK		Bodies concerned in system audit for financial year 2024							
	Standard list of requirements defined in the Annex B of the FWA	CFCU	CPA	MLESD	MSWFCD	MESI	MHMR	Nipac Office	IAD in MoF*
2.									
a)	Objective setting					x		x	
b)	Risk identification, assessment and response					x		x	
c)	Fraud risk					x		x	
d)	Identification and assessment of changes affecting the system of internal controls					x		x	
4.	Information and communication								
a)	Information to support functioning of internal controls	x	x	x	x	x	x		
b)	Internal communication	x	x	x	x	x	x		
c)	External communication	x	x	x	x	x	x		
5.	Monitoring of internal control framework								
a)	On-going and specific monitoring*								x

* audit of the efficient and effective functioning of internal audit of EU Funds in Ministry of Finance

Table 3

During the preparation of Audit Strategy based on professional judgment, thematic audit on function and capacity of Internal audit was planned. For the purpose of detailed defining the scope of this audit, during audit engagement planning we have considered the following:

- Until December 2019 Internal Audit Units (IAUs) in every Ministry had obligation to conduct internal audit of EU funds under the Instrument for Pre-Accession.

According to the Decree for establishment of internal audit in the public sector (OG MNE 70/19) the internal audit for the whole IPA system was assigned to a specialised unit in the Ministry of Finance, thus replacing the units within each ministry. This Decree was repealed and replaced by Decree of Establishment of Internal Audit in the Public Administration (OG MNE No. 096/21; 134/22). The IAD of the European Union funds in the public sector, conducts audit of programs and projects that are fully or partially financed from the funds of the EU pre-accession assistance and any other donor funds in the state administration bodies that make up the structure for the independent management of the pre-accession funds (so-called IPA bodies) in order to provide an independent and objective assurance of adequacy and effectiveness of the management and internal control system and providing advisory activities. Also, pursuant to Article 76a of the Law on Amendments to the Law on Budget and Fiscal Responsibility (OG MNE No. 27/2023 from 8.3.2023) the indirect management of IPA funds of the EU is introduced for the first time to a systemic national law. Pursuant to same Article, it is prescribed that the internal audit of the implementation of IPA programs under indirect management is performed by an organizational unit of the Ministry of Finance. By the Rulebook on organization and systematization of work posts on Ministry of Finance, the Department for Internal Audit of EU Funds in the Public Sector has organizational independence.

- Separate audit of the functioning of the Centralised Internal Audit Unit responsible for audit of EU funds - Department for Internal Audit of EU Funds in the Public Sector established within Ministry of Finance, has never been performed by AA before.
- As a result of follow up findings and recommendations given in BDO's Report from February 2019 (Ad Hoc Audit on Internal Audit Capacities in the context of Internal Control Framework under the Instrument for Pre-Accession II (IPA II) in Montenegro), performed during 2023 we concluded that findings and recommendation given for IAUs within Ministries are not relevant anymore and that those issues should be in the scope of audit of AA with regards to Centralised IAU responsible for audit of EU funds.

Additionally, during this audit engagement we performed further follow up of implementation of recommendation related to our proposal of open findings from above mentioned BDO's Report.

Therefore, in audit scope were:

- IAD of EU Funds in Ministry of Finance and
- Central Harmonization Unit – Ministry of Finance; related to its jurisdiction to work of IAD.

4.4. Details of the audits carried out

4.4.1. Description of the principal findings and the conclusions drawn from the audit work for the MCSs and their functioning, including the sufficiency of management checks, accreditation procedures and audit trail, adequate separation of functions and compliance with Union requirements and policies

4.4.1.1. System audit - Multi-annual action programme for Montenegro on Employment, Education and Social policies 2015-2017 (2015/037-895).

After the system audits have been completed, we conducted a quantitative and qualitative analysis of the results of the implemented activities. We evaluated the assessment criteria for each ICFR and afterwards drawn a conclusion by ICFR. Based upon the results of the categorisation of each ICFR, we reached conclusion by body and then made the overall conclusion on the MCSS of the programme.

When assessing the system, the categories defined in the Guidelines on a common methodology for assessing the management and control systems in the Member States have been applied and the evaluation of the MCSS is expressed within one of the four categories as follows:

- Works well. No or only minor improvement(s) are needed (1);
- Works, but some improvement(s) are needed (2);
- Works partially; substantial improvement(s) are needed (3);
- Essentially does not work (4).

In the following table (Table 3) are presented results of evaluation for all audited ICFR/assessment criteria in each body.

AUDITEE ICFR	CFCU (IA)	CPA (IA)	MLESD (PIU)	MSWFCD (PIU)	MESI (PIU)	MHMR (PIU)	NIPAC Office	IAD/ CHU*	TOTAL
2 (a) Objective setting	/	/	/	/	1	/	1	/	1
2 (b) Risk identification, assessment and response	/	/	/	/	2	/	2	/	2
2 (c) Fraud risk	/	/	/	/	1	/	1	/	1
2 (d) Identification and assessment of changes affecting the system of internal controls	/	/	/	/	1	/	1	/	1
4 (a) Information to support functioning of internal controls	2	2	2	2	2	2	2	2	2
4 (b) Internal communication	1	1	1	1	1	1	/	/	1
4 (c) External communication	2	2	2	2	2	2	/	/	2
5(b) Assessment, recording and communication of internal control deficiencies*	/	/	/	/	/	/	/	2	2
TOTAL:	2	2	2	2	2	2	2	2	

* audit of the efficient and effective functioning of internal audit of EU Funds in Ministry of Finance

Table 4

Further below we outline the description of the most important findings identified and conclusions reached through audit as well as recommendations provided for correcting the findings.

Principal findings identified in the particular ICFR are as follows:

Risk on inadequate and incomplete information and reporting of sustainability of projects

ICFR: 4 (a) Information to support functioning of internal controls

Level of Priority: Intermediate

Body/-ies concerned by the finding: All PIUs; Nipac Office

In MOP (Part II, chapter Contract implementation and on the spot, point 2.1: Sustainability of contracts) it is stated: *“After the end of contract implementation, in order to ensure that the objectives set out in the Action documents/Operation information sheets are achieved, the activity outcomes are in place and in use in line with the project purpose, task of SPO/PIUs is that occasionally monitor the activities completed”*.

During the audit we determined that PIUs did not perform checks of sustainability of all projects. Bearing in mind that the operational assurance of specific objectives and results being achieved and sustainable is closely linked to the formal closure of programme as well as that the contracts implementation is finished and that closure phase for SOPEES will be started at the latest on April 30th 2025, PIUs should perform check of sustainability of all projects.

Also, monitoring visits by the NIPAC Office are not performed.

At the end, the failure to ensure sustainability of project results might lead to application of financial correction by European Commission (Article 17 of the IPA II Implementing Regulation and as per Article 43(2) of the FWA), as it is considered breach of obligations in the implementation of the programme. The same applies to partial achievement or non-achievement of project results.

Recommendation:

We recommend check of sustainability of projects by responsible PIU, so that the SPO can sign Annex 2.2 (Final Contract Progress Report) and Annex 2.3 (Final State of Play of the Contract) of Final declaration. Additionally, we recommend to NIPAC Office to conduct monitoring visits, in order to verify reliability and accuracy of information provided by PIUs, so that to Final Implementation Report could be prepared on the basis of adequate and complete information about SOPEES.

Non-functioning of web site of CFCU and Electronic Contract Execution System

ICFR 4(c) – External communication

Level of Priority: Intermediate⁸

Body/-is concerned by the finding: Implementing Agency – CFCU

During the audit we determined that website of CFCU is not in function.

Namely, website is not functional due to the cyber-attacks on the Government's information system which occurred in 2022.

Functionality of the website means the publication of public invitations, application packages, tender files, written clarifications, notifications about the cancellation of invitations and the award of contracts. Bering in mind above the mentioned, it is evident that activities related to transparency, visibility, information and communication, in line with Framework Agreement have not been completely ensured.

⁸ Current phase of implementation of programme is taken into account when determining the level of priority

Also, there is a "whistle blowing policy" in MoP. Rules on protection of whistle blowers are in applied in adequate way (particularly in respect of commitment to keep confidentiality and anonymity) also to natural persons who are not employed in the system, as well as natural and legal persons who use the pre-accession funds, and to the representatives of the interested public, who indicate illegalities and irregularities in the usage of EU funds. However, since there is a problem with the website of CFCU, the link for whistle is unavailable. Additionally, eCES (Electronic Contract Execution System) is not in function for either nor external users and CFCU.

Recommendation:

We recommend to CFCU to solve problem with website functionality as soon as possible.

Absence of publication of e mail address for anonymously report irregularities

ICFR 4(c) – External communication

Level of Priority: Intermediate

Body/-ies concerned by the finding: CPA

According to MoP, chapter Irregularities Implementing agencies (including IPARD agency) and AFCOS Office are obliged to activate the address of the electronic mail to which the citizens may anonymously report irregularities. The electronic mail address should be published on the web pages of the body. Also, special communication channels should be ensured, such as telephone lines for the "whistle blowers", which serve as security mechanism enabling the anonymous and confidential alerts reported, in cases when usual channels do not function or are not efficient.

During the audit we noticed that address of the electronic mail to which the citizens may anonymously report irregularities is not published on webpage of CPA.

Recommendation:

We recommend to CPA to ensure adequate communication channels for receiving information on existence of suspected irregularity from external parties (e.g. whistle blowers, project stakeholders, etc.).

Lack of information and inadequate risk response

ICFRs:

4 (a) Information to support functioning of internal controls

4 (c) External communication

2 (b) Risk identification, assessment and response

Body/-ies concerned by the finding: NAO; CFCU; CPA and PIU-MESI

Level of Priority: Major

According to MoP, Chapter Contract implementation and OTSC, by 31st January each year, the Contract Manager prepares the summary of on-the-spot verifications performed in the previous year where the general information on the problems encountered, the solutions and recommendations is provided. The summary is provided to the Head of IA for review and approval. The approved summary shall be sent to the NAO for information. The copy of the summary shall be distributed to all IA staff members concerned.

By reviewing the documentation in CPA, we determined that Summary of on-the-spot verifications for 2023 was prepared and approved on 15/01/2024. In the point 2 of this document: Frequently encountered problems and discrepancies identified it is stated **“No problems nor discrepancies have been identified”**, despite the fact that there were significant problems with implementation of Contract No M1.2.2.3.03. D01 (WKS/4018/1) - *Works for Adaptation of the school buildings for accessibility and movement of disable persons and persons with mobility difficulties, Montenegro.*

Additionally, for above mentioned project risk response by CPA as well as by PIU-MESI was not adequate. Despite the fact that risk of delay in implementation of project was identified and assessed by CPA and MESI in the middle of 2022, until now the problem has not been solved.

Since, the approved document by IA was sent to the NAO for information, inadequate information given in this document as well as inadequate risk response by IA and PIU led to untimely reactions, which at the end can lead to financial correction.

Also, during the audit we noticed that during 2024 IA - CFCU did not submit *Progress report on contracts and payments* to the NAO/DMS.

Recommendation:

We recommend:

- to CPA to share accurate and complete information, on the basis of real state of play;
- Progress report on contracts and payments should be submitted to the NAO/DMS
- in order to solve problem with implementation of project in question urgent action of all actors included in implementation is needed.

4.4.1.2. Thematic audit: System audit of the efficient and effective functioning of internal audit of EU Funds in Ministry of Finance

On the basis decision during the preparation of the Audit Strategy 2024 – 2025, for the purpose of detailed defining the scope of this audit, during audit engagement planning we have considered the following:

- Until December 2019 Internal Audit Units (IAUs) in every Ministry had obligation to conduct internal audit of EU funds under the Instrument for Pre-Accession. According to the Decree for establishment of internal audit in the public sector (OG MNE 70/19) the internal audit for the whole IPA system was assigned to a specialised unit in the Ministry of Finance, thus replacing the units within each ministry. This Decree was repealed and replaced by Decree of Establishment of Internal Audit in the Public Administration (OG MNE No. 096/21; 134/22). The IAD of the European Union funds in the public sector, conducts audit of programs and projects that are fully or partially financed from the funds of the EU pre-accession assistance and any other donor funds in the state administration bodies that make up the structure for the independent management of the pre-accession funds (so-called IPA bodies) in order to provide an independent and objective assurance of adequacy and effectiveness of the management and internal control system and providing advisory activities. Also, pursuant to Article 76a of the Law on Amendments to the Law on Budget and Fiscal Responsibility (OG MNE No. 27/2023 from 8.3.2023) the indirect management of IPA funds of the EU is introduced for the first time to a systemic national law. Pursuant to same Article, it is prescribed that the internal audit of the implementation of IPA programs under indirect management is performed

by an organizational unit of the Ministry of Finance. By the Rulebook on organization and systematization of work posts on Ministry of Finance, the Department for Internal Audit of EU Funds in the Public Sector has organizational independence.

- Separate audit of the functioning of the Centralised Internal Audit Unit responsible for audit of EU funds - Department for Internal Audit of EU Funds in the Public Sector established within Ministry of Finance, has never been performed by AA before.

- As a result of follow up findings and recommendations given in BDO's Report from February 2019 (Ad Hoc Audit on Internal Audit Capacities in the context of Internal Control Framework under the Instrument for Pre-Accession II (IPA II) in Montenegro), performed during 2023 we concluded that findings and recommendation given for IAUs within Ministries are not relevant anymore and that those issues should be in the scope of audit of AA with regards to Centralised IAU responsible for audit of EU funds.

Additionally, during this audit engagement we performed further follow up of implementation of recommendation related to our proposal of open findings from above mentioned BDO's Report. Therefore, in audit scope were:

- IAD of EU Funds in Ministry of Finance and
- Central Harmonization Unit – Ministry of Finance; related to its jurisdiction to work of IAD.

After the audit of the efficient and effective functioning of internal audit of EU Funds in Ministry system audits have been completed, we conducted an analysis of the results of the implemented activities and conclusion related to compliance with the ICFR 5 (a) in Annex B of the Framework Agreement is given.

Further below we outline the description of the most important findings identified and conclusions reached through audit as well as recommendations provided for correcting the findings.

Principal findings identified are as follows:

Lack of employees in IAD	
Related IIA requirement: Standard 2030 – Resource management	
Level of Priority: Major	Implementation Deadline: As soon as possible
Responsible body/ person-s: NAO/Head of IAD of EU Finds in Ministry of Finance	
Based on the examination of the submitted documentation during the audit performed, we determined the following:	
- Envisaged number of work posts within IAD of EU funds (except IPARD) in the Rulebook on internal organization and systematization of Ministry of Finance from December 2023 is 4: Head of IAD, Superior internal auditor, Senior internal auditor and Junior internal auditor. Currently 3 positions are filled (Head, 1 Superior and 1 Senior internal auditor); - Superior internal auditor is on long term leave; - According to WLA for 2024, the number of needed employees is 5 (1 Head of IAD, 2 Superior, 1 Senior and 1 Junior Internal Auditor).	
Recommendation:	
Recruitment of necessary numbers of staff is needed as soon as possible. Also, having in mind audit universe and new challenges related to IPA perspective III, increasing of number of systematized work post in this department through the Rulebook on internal organization and systematization of Ministry of Finance should be considered.	

Internal audit Charter	
Related IIA requirement: Standard 1000 - Purpose, authority, and responsibility	
Level of Priority: Major	Implementation Deadline: As soon as possible
Responsible body/ person-s: Head of IAD/ NAO/Minister	
During the audit we determined that in the updated Charter of Internal Audit (signed by Head of IAD, NAO and Minister of Finance in February 2024), specific IAD's position and role (one central internal audit unit for the IPA systems) is not completely taken into account. Having in mind that: - the objective of internal audit function is to ensure that regular specific activities are carried out to provide higher management with independent review of the subordinate systems; - for such a positioned IAD of EU Funds, NAO represents higher/senior management which should be provided with independent review of the results of the functioning of systems at subordinate levels and - in point 4. of Charter, it is stated that Head of IAD is directly responsible to the Minister and NAO, we consider that relation between the head of IAD and NAO, as well as NAO's role as higher/senior manager for all IPA systems, should be more precisely defined, especially in part related to consideration/adoption of Strategic and Annual plans. A specific IAD's position should be a starting point in definition of the mission, vision and scope of work of IAD.	
Recommendation: We recommend updating of Charter on Internal Audit in accordance with specific position and role of IAD of EU funds (in Ministry of Finance) in the whole IPA system.	

Strategic and Annual Plans	
Related IIA requirement: Standard 2020 - Communication and approval	
Level of Priority: Intermediate	Implementation Deadline: December 2024
Responsible body/ person-s: NAO/Head of IAD	
After having examined the Strategic plan for the period 2024-2026, as well as Annual plan for 2024, we determined as follows: - there is not audit trail that those plans were considered/adopted by NAO. According to the IIA's standard 2020: Communication and approval as well as Article 24 and Article 48 of the Law on Management and Internal Controls in the Public Sector (PIFC Law), (OG, No. 75/18), Strategic and Annual plans for audits should be determined by the Head of entity/body where internal audit function is established. Having in mind IAD 's specific position in state administration as well as NAO's role, Strategic and Annual plans should be also considered/adopted by NAO; - Annual plan was adopted in January 2024, which is not in compliance with Article 24 of the Law on Management and Internal Controls in the Public Sector (PIFC Law), (OG, No. 75/18), in which it is stated: Annual plan should be adopted by the end of current year for the next year.	
Recommendation: We recommend that Strategic and Annual plans should be considered/adopted by NAO. Also, we recommend that Annual Plan should be adopted by the end of current year for next year.	

Policy and Procedures/Methodology
Related IIA requirement: Standard 2040 - Policies and Procedures
Level of Priority: Intermediate Implementation Deadline: December 2024
Responsible body/ person-s: Head of IAD in coordination with CHU
According to the standard 2040-Policies and Procedures, the chief audit executive must establish policies and procedures to guide the internal audit activity. During audit we determined that IAD of EU Funds in its work used only Rulebook on Methodology of work of internal audit in the Public Administration (OG MNE 001/20). Tailored policy and procedures are not established. The abovementioned Rulebook was not updated and does not consider the specificities of IAD of European Union funds. Having in mind the specific position and role of the IAD of EU Funds, we consider that a separate policies and procedures as additional guidelines and details, which are not included in the Rulebook on Methodology of work of internal audit in Public Administration, should be developed. Also, bearing in mind requirements from new IIA standards (which will entry into force in January 2025), new separate methodology for this IAD should be developed.
Recommendation: We recommend that Head of IAD/CHU develop/update procedures and Rulebook in question, taking into consideration specific position and role of this IAD and new IIA standards.

Engagement supervision
Related IIA requirement: Standard 2340 – Engagement Supervision
Level of Priority: Intermediate Implementation Deadline: Continuously
Responsible body/person-s: Head of IAD
By review the sample of the engagements of IAD we noticed that there is no adequate audit trail for supervising the engagement, which is not in compliance with IIA standard 2340 and the Rulebook on Methodology of work of internal audit in Public Administration (OG/MNE No 001/20). Namely, the Head of the IAD should make an official note on the performed supervision and the determined situation, stating the date after the review, sign a note and file it in the audit file. The official note is kept with the other audit notes documentation in the audit file.
Recommendation: Appropriate evidence of supervision for each engagement should be documented and retained in accordance to IIA standard 2340 and Rulebook on Methodology of work of internal audit in Public Administration.

Training
Related IIA requirement: Standard 1230 – Continuing Professional Development
Level of Priority: Intermediate Implementation Deadline: Continuously
Responsible body/person-s: NAO/Head of IAD/CHU
By review of the training register we noticed that internal auditors from IAD for EU Funds attended a significant number of trainings related to different issues through Programme of continuous education of internal auditors. However, we consider that further trainings related to specificity of audit of EU funds are needed, in order to be able to better understand all specificities of its audit universe.

Also, trainings related to implementation of new IIA Standards should be attended in coordination with CHU.

Recommendation:

Bearing in mind that IPA III perspective started and that there are different technical assistance projects, we recommend to NAO to ensure to internal auditors from IAD of EU Funds, the possibility of attendance of all trainings related to IPA. Also, trainings related to implementation of new IIA standards should be provided by CHU and attended by internal auditors of IAD of EU Funds.

4.4.2. Details of whether any problems identified were considered to be of a systemic character

During the conducted system audits in 2024, no findings were found with systemic character.

4.5. Description of specific deficiencies related to the management of financial instruments, detected during systems audits and of the follow-up given by the national authorities to remedy these shortcomings

Not applicable.

4.6. Level of assurance obtained following the system audits (low/average/high) and justification

On the basis of work performed, we gained reasonable assurance that the MCSS established for implementation of the IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) „**Works, but some improvements are needed** “. Overall conclusion for MCSS, based on the results of this year system and professional judgement, as well as the results of follow up of previous years findings is presented in table below, per each body:

IPA BODY	Works well. No or only minor improvement(s) are needed	Works, but some improvement(s) are needed	Works partially; substantial improvement(s) are needed	Essentially does not work
CFCU		X		
CPA		X		
MLESD		X		
MSWFCD		X		
MESI		X		
MHMR		X		
NIPAC Office		X		
IAD/MoF*		X		
Overall conclusion	Works, but some improvements are needed			

*Internal Audit Department of EU funds established in Ministry of Finance - for all IPA II and IPA III Programmes and bodies except IPARD Managing Authority and IPARD agency.

Table 5

Bearing in mind aforementioned, we consider that level of assurance is **average**.

Also, based on the performed a thematic system audit of the efficient and effective functioning of internal audit of EU Funds in Ministry of Finance, the auditor's conclusion is that the **IAD has functioned effectively, however, further improvements are needed**.

Related to this audit engagement, inter alia, we concluded:

The objective of this internal audit function is to ensure that regular specific activities are carried out to provide higher management with independent review of the subordinate systems. Higher management for thus positioned IAD for EU Funds is NAO.

Given that the human resource is the most important factor for functioning of all systems, insufficient number of internal auditors are the most significant barrier to achieving the full potential of this IAD. Additionally, continuous trainings are needed to enhance specific skills and knowledge of the audit team of this IAD.

Bearing in mind specific position and role of this department in PIFC system in Montenegro and MCSs for IPA perspectives, some improvements regarding Charter, strategic and Annual planning, methodology and policy, engagement supervision as well as coordination of activities with AA, are needed.

As a result of this audit and the result of the follow-up activities, we concluded that the goal of the establishment of this IAD has been mainly fulfilled, especially due to the fact that until the establishment of this IAD, one of the main problems in Internal Audit Units (IAUs) in every Ministry was lack of internal auditors with proper English language skills who specialized on IPA regulation and procedures. With the establishment of this unit, that problem has been significantly reduced.

It is evident that the number of conducted audits increases from year to year. However, taking into account the defined audit universe and new challenges related to IPA perspective III as well as new IIA Standards, there is a risk that this IAD with current capacities will not be able to add expected value to the functioning of MCSs.

Namely, this fact may have an impact on the quantity and/or quality of audits envisaged in annual audit plans, which happened in 2023. Five out of six planned audits were conducted. Also, there is a risk that some of the subsystems, processes or procedures with high impact on the overall system will not be subject of the audit, and that at the end NAO would not have additional assurance about the functioning of systems or an independent review on the effectiveness and efficiency of the systems.

5. AUDITS OF SAMPLES OF TRANSACTIONS

Not applicable.

Costs declared as "recognised" in the Request for Funds (including Declaration of Expenditure) submitted by the NAO to the Commission constitute the population for audits of operations/sample of transactions in order to establish AA's opinion on legality and regularity of the expenditure.

Bearing in mind that in the previous period **NAO did not declare any expenditure to EC**, i.e.

NAO did not submit RfFs (with DoE) to the EC, AA was not in a position to perform audit of operations/samples of transactions.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

- 5.7. Summary table (see below), broken down where applicable by programme indicating the eligible expenditure declared to the Commission during the year, the amount of expenditure audited, and the percentage of expenditure audited in relation to total eligible expenditure declared to the Commission for the last year, as well as the total number of sampling units in the population and the number of sampling units actually audited for the random sample. Information relating to the random statistical sample is distinguished from that related to other samples if applicable (e.g. risk-based complementary samples)**

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

Audit of accounts was conducted by Department for audit of the programmes – employment, social policies, education, promotion of gender equality and development of human capacities.

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 has been carried out in compliance with the Audit Authority Manual of procedures, Programme Audit Strategy 2025, Framework Agreement and relevant Financing Agreement.

For the purpose of expressing the Annual Audit Opinion, in order to conclude that the Annual Financial Report gives a true and fair view, the Audit Authority shall verify that all elements required by models stipulated in Annex IV of the Financing Agreements concerning the 2015-2017 SOPEES, i.e. cumulative amounts presented for the programme, are correctly included in the accounts and correspond to the supporting accounting records maintained by relevant

IPA bodies, i.e. in the National Fund Division (NFD) and Implementing Agencies - Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) and Capital Projects Administration (CPA).

In line with Article 59(2) of the Framework Agreement concluded between the Government of Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession assistance (IPA II), NAO submitted Annual Financial Reports for 2024 to EC on 14th February 2025.

This audit of accounts covered Annual Financial Report for 2024 for the 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies.

The summarized data regarding the total amounts contracted, decommitted, disbursed, recognized and open pre-financing as well as recoveries and bank balance, which are submitted in the previously mentioned AFR for 2024, is presented in the table below:

Sectoral Operational Programme for Employment, Education and Social policies 2015-2017

Financing Agreement CRIS No 2015/037-895

Programme Budget:

- **EU contribution: 15.299.999,98 EUR**
- **National contribution: 2.700.000,03 EUR**
- **Other sources: 0,00 EUR**

Local Contract Activities														
Total Amount Contracted			Total Amount Decommitted on closure	Total Amount Disbursed			Total Costs Recognized			Total Open Pre-financing			Recovery context	Bank Balances (EU contrib)
4			6	8			10			12			17	18
EU contribution	National contribution	Other sources	Total	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	EU contribution	National contrib.	Other sources	No context	Total
14,701,226.95	2,594,334.14	1,088,861.51	0.00	13,736,191.02	2,424,033.68	0.00	13,531,835.35	2,387,970.90	1,002,412.15	0.00	0.00	0.00	158,908.39	1,641,221.00

Table 6

The Audit Authority, on the basis of the Annual Financial Report for 2024 as well as all required documentation provided to it by the NFD and IAs (CFCU and CPA) verified whether:

- 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 NFD and IAs;
- 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 made under the contract,
- the bank accounts statement for each programme balances corresponds to the year-end balances in the accounting systems of the NFD;
- reconciliation of the accounting records and cash flow statements of the NFD and CFCU and CPA.
- total amounts of recoveries correspond to supporting documents for recoveries.

In order to achieve the overall objective, the Audit Authority considered the results from the System audits (Report No 01-908/25-31/3 from 28/1/2025), carried out in Implementing Agencies (CFCU and CPA).

During 2024 NAO did not submit a request for funds including a "Declaration of expenditure". Therefore, Audit Authority has not been in a position to perform audit of operations/transactions regarding SOPEES.

However, we performed additional audit work in accordance to DG NEAR IPA - Guidance for Audit Authorities on audits of operations, opinions and reports (Ref. Ares (2020)6052313-28/10/2020; NEAR.R.3 2020-001).

Having in mind that eligibility period expired on 31/12/2023 and that during 2024 no activities in regard to contracting and payments were done by IAs, we checked amounts recovered during 2024.

We performed additional tests for all items (100%) in terms of cost recognized in 2024, as well as amount recovered.

Also, we performed follow up findings and recommendation given in previous audit of accounts. Results are given in table No 7.

All testing related to Audit of accounts has been documented in the Checklists and working papers made in accordance with Audit Authority Manual of procedures.

Findings identified are as follows:

Finding No 1: Incorrectly presented "Disbursed amount" and "Recovery context"

Annual Financial Report for 2024

Level of Priority: Intermediate

Body/-ies concerned by the finding: NFD/CFCU/CPA

Implementation deadline: Final Declaration on expenditure

Based on the audit performed, we noticed that "Total Amount Disbursed" and „Recovery context“ were not properly reported in the ARF 1.

By the insight into AFR1 for 2024 we determined that Total Amount Disbursed are presented in the amounts as follows: EU contribution 13,736,191.02€ and National contribution 2,424,033.68€.

Analysing the relevant registers and documentation in IAs and NFD related to recoveries until the end of 2024, as well as accounting records and analytical card of Central bank account we determined as follows:

Contract	Issued Recovery orders by IAs until the end of 2024	Recovered until 31.12.2024
CFCU/MNE/086	126,880.75	19,223.83
CFCU/MNE/183	6,348.64	6,348.64
CFCU/MNE/131	1,379.77	1,379.77
CFCU/MNE/199	104,945.60	0.00
CFCU/MNE/111	47,672.02	47,672.02
CFCU/MNE120	434.92	434.92
CFCU/MNE/175	3,210.60	0.00
WKS/01-908/21-4018/	71,849.21 ⁹	71,849.21
Total	362,721.51	146,908.39

Based on audit work performed we concluded that:

- **Column 8: Total Disbursed** is not decreased by the amount of recovered /repaid funds for the following contracts:

- contract CFCU/MNE/086 in the amount of 19,223.83€ (EU 16,340.19€; NC 2,883.62€;
- contract PWA/MNE/IPAI/ISOPEES/WKS/01-908/21-4018/1 in the amount of 71,849.21€ (EU 61,071.83€; NC 10,777.38€) - repaid amount based on activation of Performance guaranty.

Additionally, during the audit we noticed that transfer of funds from contractor's bank account in the amount of 71.489,21€ (based on activated guaranty) to Transaction Account for International Payments was made on 4/10/2024. Transfer to Main Treasury account was executed on 10/10/2024, but transfer of funds in the amount of EU 61,071.83€ (EU part) from Main Treasury account to account „MF-NF IPA SHROP“ was made on 19/12/2024. It is obvious that, due to lack of adequate communication between IA (CPA) and NAO/NFD, smooth re-

⁹ Under work contract (contract No. WKS/01-908/21-4018/1) preformance guarantee is activated and amount is repaid. Since this contract has not been finished yet, if the expenditure related to this contract is included in the Final Declaration of expenditure, this contract will be in the scope of Audit of operation.

payment on „MF-NF IPA SHROP” account has not been ensured.

➤ **Column 17: Recovery - No context** is higher for the amount of 12.000,00€.

Total recovered/repaid until 31.12.2024 (see table above)	146,908.39
Column 17 of AFR – Recovery context (no context)	158,908.39
Deference	12,000.00

During further analysis we noticed that difference in the amount of 12.000,00€ is related to the contract CFCU/MNE/086 (Direct award Support programme for self-employment) and this amount is included in the Register of Recoveries of NFD, despite the fact that recovery itself was not conducted until 31.12.2024.

Additionally, related to this contract recovered funds in the amount of 19,223.83 (EU part 16,340.19€; NC 2,883.64€) as well as the amount of 1,762.29€¹⁰ (EU part 1,497.96€; NC 264.33€) are not adequately treated in the accounting system of CFCU and in relevant registers.

Recommendation:

- Total Amount Disbursed should be calculated: Total amount paid - recoveries made (recovered amount).
- The total amount presented in field “Recovery context” of AFR1 should contain only recovered amounts.
- In the Annual Financial Report, in the accounting system and in the relevant registers amounts presented have to be absolutely complete, accurate and true and they have to present the real state of affairs;
- CPA should share all information, especially financial data, between own departments as well as with NAO/NFD without any delays.

Finding No 2: Incorrectly presented “Cost recognized”

Annual Financial Report for 2024

Level of Priority: Intermediate

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

Implementation deadline: Final Declaration on expenditure

By the insight into AFR1 for 2024 we determined that Total Costs Recognised are presented in the amounts as follows: EU contribution 13,531,835.35€, National contribution 2,387,970.90 € and Other sources 1,002,412.15€.

Based on the audit performed, by the insight into requested documentation and by testing, we determined that amount of costs recognized, contained in AFR1 as well as in the accounting system of CFCU was higher in the total amount of 4,488.60€ in relation to the amount we determined was recognized. The amount of 4,488.60€ is recorded in the accounting system of

¹⁰ Amount withdrawn at the end of year 2020 which was not returned again to Employment Agency of Montenegro (contractor of the contract Direct award Support programme for self-employment -CFCU/MNE/086), is properly treated in the AFR1 and in accounting system of NFD.

the CFCU and included in AFR1 for SOPEES despite the fact that this amount should be excluded based on financial correction determined by AA¹¹. Financial corrections were as follows:

Contract No	EU contribution	National contribution	Total amount
DMS Invoice 1927/2022	1,086.30	191.70	1,278.00
CFCU/MNE/175	2,726.46	484.14	3,210.60
Total	3,812.76	675.84	4,488.60

According to the above mentioned, the amount of the 4,488.60€ should not have been included in the cost recognized because the cost is considered ineligible for being financed from the Programme.

Recommendation:

We recommend that all financial correction determined by Audit Authority should be entered into the accounting system of IAs as well as in data presented in the Annual Financial Reports, accordingly.

❖ Follow up of previous year audit of accounts

During the audit of accounts, auditors performed the follow up of the implementation of recommendations related to open findings given in the audit of accounts for 2022 and 2023. Having in mind findings given in Audits of accounts for 2024, the result of performed follow up is that all previous findings are no longer applicable.

Results of the follow up are presented in the table below:

List of open findings from the Report on the Audit of account No: 3011-3-06-182/2 from 10 th March, 2023			
No	Finding	Recommendation	Status in March 2025
1	Finding No: 2 Incorrectly presented "Total Amount Disbursed" Annual Financial Report for 2022, item No. 8 Level of Priority: Intermediate Body/-ies concerned by the finding: NAO/NF and CFCU/IA According to the Annual Financial Report for 2022 for 2015-2017 SOPEES, Total Amount Disbursed, Total Costs Recognised, Total Open Pre-financing and Recovery context were reported as follows: Total Amount Disbursed: ➤ EU contribution: 12.757.445,58 EUR¹², ➤ National contribution: 2.251.313,94 EUR¹³, ➤ Other sources: 0,00 EUR. Total Costs Recognised:	Recommendation: We recommend to decrease Total Amount Disbursed in AFR for 2023 for the amount of recovered funds until the end of 2023 in order to ensure providing complete and accurate annual financial reports. We recommend to CFCU to respect all prescribed accounting procedures related to making complete and proper accounting entries regarding recoveries.	During the audit we checked total disbursed amount and determined incorrectly presented amount as stated in Finding No1. Therefore, this finding is no longer applicable.

¹¹ Financial correction determined within System audit (Final report No 3011-1-06-263/4 from 29th January .2024 - Finding No 4.2) and Audit of operation (Final Report No. 3011-2-06-181 from 6th March 2023 – Transaction Finding No: 2).

¹² Under disbursed amount-EU contribution, total payments made has been decreased for withdrawn funds (at the end of 2020 it was in amount of 1.497,96 € and at the end of 2021 it was in amount of 211.803,93 €). This specificity is related to direct grant contract (contract No. CFCU/MNE/086) and it's beneficiary Employment Agency of Montenegro. Namely, funds not spent by the end of fiscal year within the state budget are lost and due to that, for payments made under direct grant contract withdrawal of EU part of funds from state budget to relevant IPA account for SOPEES programme is done at the end of 2020 and 2021, in order to prevent loosing of funds within state budget. These funds may be transferred to grant beneficiary (EAM) again.

¹³ Under disbursed amount-National contribution, total payments made has been decreased for withdrawn funds (at the end of 2020 it was in amount of 264,34 € and at the end of 2021 it was in amount of 37.377,16 €). Also, see previous explanation

	➤ EU contribution: 8.462.828,57 EUR; ➤ National contribution: 1.493.440,29 EUR; ➤ Other sources: 521.878,21 EUR. Total Open Pre-financing: ➤ EU contribution: 4.294.617,01EUR; ➤ National contribution: 757.873,63 EUR; ➤ Other sources: 0,00 EUR. Recovery context: ➤ Errors: 0,00 EUR; ➤ Irregularities: 0,00 EUR; ➤ Fraud: 0,00 EUR; ➤ No context: 19.658,75 EUR¹⁴ We performed checks of documentation and accounting records regarding, inter alia, the total amount disbursed and amount of recoveries which were proceed in the previous period ending by 31/12/2022. Analysing the relevant registers and documentation in IAs and NF as well as accounting records and analytical card from bank account, we determined that item No 8 Total Amount Disbursed in AFR for 2022 is not correctly presented. Total Amount Disbursed should be decreased for the amount of recovered funds – 19.223,83 EUR, and consequently amount of Total Cost Recognised or Total Open Pre-financing were not properly reported. EU contribution was presented more for 16.340,26 € than it should be while National contribution was presented more for 2.883,57 €. According to aforementioned, we calculated Total Amount Disbursed: ➤ EU contribution: 12.741,105,33 EUR; ➤ National contribution: 2.248.430,37 EUR. This discrepancy between data reported in AFR for 2022 and data resulting from our calculation is related to the amount of recoveries. Namely, by comparing the AFR and the accounting records, we concluded that the recovery was well presented in the AFR for 2022 but it was not properly treated in accounting records of CFCU		
List of open findings from the Report on the Audit of account No: 3011-3-06-126/2 from 06th March 2024			
No	Finding	Recommendation	Status in March 2025
1.	Finding No 1: Financial correction determined by Audit Authority Annual Financial Report for 2023 Level of Priority: Major Body/-ies concerned by the finding: NAO/NFD/CFCU During the audit we have determined that financial correction determined within System audit (Final report No 3011-1-06-263/4 from 29.01.2024 - Finding No 4.2) in the total amount of 1,278.00€ (Eu part 1,086.30€ and NC 191,70€) was not included in Annual Financial Report for 2023 for 2015-2017 SOPEES.	We recommend preparation and presentation of data in Annual Financial Reports including all financial correction determined by Audit Authority.	Since financial correction determined by AA is not presented in AFRs this finding is now showed within finding No2.
2.	Finding No 2: Incorrectly presented "Total Amount Disbursed" Annual Financial Report for 2023, Total Amount Disbursed Level of Priority: Intermediate Body/-ies concerned by the finding: NAO/NFD and CFCU/IA By the performed checks of relevant documentation and the accounting records, regarding to the total amount disbursed, total amounts recognized, total amount of open pre-financing and the amount of recoveries, we determined that "Total Amount Disbursed" was not properly reported in the ARF 1. Analysing the relevant registers and documentation in IAs and NFD releted to recoveries until the end of 2023, as well as accounting records and analytical card of bank account we determined as follows:	In order to ensure providing complete and accurate annual financial reports, we recommend that Total Amount Disbursed should be calculated: Total amount paid - recoveries made (recovered amount).	During the audit we checked total disbursed amount and determined incorrectly presented amount as stated in Finding No1. Therefore, this finding is no longer applicable.

¹⁴ Under Recovery context is recovery for contract CFCU/MNE/120 which is initiated and is still pending in the amount of 434,92 EUR

Contract		Issued Recovery orders	Recovered until 31.12.2023	Amount still pending to be recovered		
CFCU/MNE/086		177,521.89*	19,223.81	158,298.08		
CFCU/MNE/183		14,685.14	0.00	14,685.14		
CFCU/MNE/131		1,379.77	0.00	1,379.77		
CFCU/MNE/199		104,945.60	0.00	104,945.60		
CFCU/MNE/111		47,672.02	0.00	47,672.02		
CFCU/MNE120		434.92	434.92	0.00		
Total		346,639.34	19,658.73	326,980.61		
*see also finding No 4 We concluded that item No 8 -Total Amount Disbursed in AFR for 2023 is presented in the amount less than in accounting records of CFCU (in CPA there is no recoveries). Difference is related to the requested recovery funds. Namely, all amounts of requested recoveries were deducted from Total amount disbursed. We consider that from total amount disbursed should be deducted only amounts of recovered funds.						
3.	Finding No 3: 2.3. Incorrectly presented "Total Open pre-financing" Annual Financial Report for 2023, item No. 12 Level of Priority: Intermediate Body/-ies concerned by the finding: NAO/NFD/CPA According to the Annual Financial Report for 2023 for 2015-2017 SOPEES, Total Open Pre-financing were reported as follows: ➤ EU contribution: 7,303.28 EUR. ➤ National contribution: 1,288.81 EUR. ➤ Other sources: 0,00 EUR. We performed checks of documentation and accounting records regarding the total open pre-financing amount. Analysing the relevant registers and documentation we determined that this amount refers to service contract No: Service (PWA/MNE/IPAII/SOPEES/SER/01-22/1) „Development of the main design and supervision of the works“. Starting from the fact that as per Article 2(2) of the Special conditions of Financial Agreement for SOPEES eligibility period expired on 31 December 2023, we consider that total amount of pre-financing amount in Annual Financing Reports for 2023 should be 0,				We recommend to NF/CPA that at the end of eligibility period total amount of pre-financing amount in Annual Financing Reports this amount should be cleared as cost recognized or as recovery.	
					In AFRs for 2024 total amount of pre-financing amount is 0. Also, amount of EU contribution: 7,303.28 EUR and National contribution: 1,288.81 EUR is not included as cost recognized. However, based on performed checks of documentation and accounting records in CPA regarding the service contract No: Service (PWA/MNE/IPAII/SOPEES/SER/01-22/1) „Development of the main design and supervision of the works“ (on which this amount refers), we determined that pre-financing is cleared as cost recognized. For this accounting entry there is no adequate audit trail. Therefore, we consider finding closed, but we recommend that IA (CPA) should make accounting entries	

			only based on adequate documents. This issue will be further checked during audit of operations (if the expenditure related to this contract is included in the Final Declaration of expenditure).																
4.	Finding No 4: Incorrectly presented Recovery context Annual Financial Report for 2023, Recovery context Level of Priority: Intermediate Body/-ies concerned by the finding: NAO/NFD According to the Annual Financial Report for 2023 for 2015-2017 SOPEES, Recovery context were presented as follows: <table border="1" style="margin: 10px auto; width: 80%;"> <thead> <tr> <th colspan="4">Recovery context</th> </tr> <tr> <th>Errors</th><th>Irregularities</th><th>Fraud</th><th>No context</th></tr> </thead> <tbody> <tr> <td>14</td><td>15</td><td>16</td><td>17</td></tr> <tr> <td>0.00</td><td>346,639.35</td><td>0.00</td><td>19,223.83</td></tr> </tbody> </table> During the audit we determined that amount of recoveries presented in the column 15 and 17 of recovery context are not presented well. We performed checks of documentation and accounting records regarding the issued recovery orders by IAs and noticed that the amount of 19,223,83€ is presented in both columns. This amount is related to the contract CFCU/MNE/086 (Direct award Support programme for self-employment). During further analysing we noticed that for this contract CFCU issued Recovery order on December 29th 2023 (on the basis Written approval of the Final Report), which determined obligation to contractor EAM to recover funds in total amount of 177,521.90€. However, amount of 19,223.83€ was already recovered by Beneficiaries of small grants during 2021 and 2022, which was not taken into account during preparation of Recovery order. The amount in accounting records of CFCU and NFD, register of Recoveries of NFD and CFCU, Debtor ledger of CFCU as well as column recovery context of AFR are not correct. Also, in note of AFR it is stated „Under contracts: CFCU/MNE/199; CFCU/MNE/31; CFCU/MNE/183 and CFCU/MNE/083 recoveries are initiated and it is presented under AFR, however, amounts are not recovered yet “. Amount of not recovered funds is not presented. However, we noticed that recoveries initiated do not correspond with above mention contracts. They are connected with contracts: CFCU/MNE/199; CFCU/MNE/131; CFCU/MNE/183, CFCU/MNE/086 and CFCU/MNE/111.	Recovery context				Errors	Irregularities	Fraud	No context	14	15	16	17	0.00	346,639.35	0.00	19,223.83	Recovery Context should be corrected as follows: - decrease for double entry by 19,223,81€; - increase by amount of 3,210.60€ - AA finding Contract CFCU/MNE/175 (EU contribution 2.726,46 EUR and national contribution 484,14 EUR) - increase by the amount of 8,592.11€ - open pre-financing (if applicable - see finding No 2 of this Report). Also, we suggest that in notes amount of total not recovered funds should be showed in details.	During the audit we checked total recovered amount and determined incorrectly presented amount as stated in Finding No 1. Therefore, this finding is no longer applicable.
Recovery context																			
Errors	Irregularities	Fraud	No context																
14	15	16	17																
0.00	346,639.35	0.00	19,223.83																

Table 7

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 follow-up to the results of the audit on transactions/operations

Audit conclusion is based on the analysis of procedures, information, data, documents, reports, adequately documented check lists and working papers related to the Audit of Accounts.

Based on the audit work performed Audit Authority auditors have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2024, except for amounts Total Disbursement Amount, Recovery context and Cost Recognized.

We highlight the most important reasons that had an effect on making conclusion on the completeness, accuracy and veracity of the Annual Financial Report or statements for 2024:

- ✓ We can confirm that total amounts of Programme Budget, Total Amount De-committed on closure, Total amount Contracted, Total amount of pre-financing and Bank Balances (EU contribution) correspond to the amounts specified in the verified documents collected from NFD and IAs;
- ✓ Total Disbursed Amounts were presented incorrectly in the amounts of 77,412.03€ (EU contribution) and 13,661.00€ (National contribution) which represents 0,56% of reported amount (13,736,191.02€ EU contribution; 2,424,033.68€ National contribution).
- ✓ Total cost recognized were presented incorrectly in the amounts of 3,812.76€ (EU contribution) and 675.84€ (National contribution) which represents 0,03% of the reported amount (13,531,835.35€ EU contribution; 2,387,970.90€ National contribution).

Starting from the fact that Disbursement Amount and Cost recognized in AFR were reported incorrectly in the amounts that are not material, i.e. the determined error is below the materiality threshold of 2% and that columns recovery context did not have an impact on the disbursed amount and on the cost recognized presented in AFR (which will be declared to EC), we consider that it is appropriate to conclude that the financial statements give a true and a fair view.

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.

The objective of the follow-up process is to determine whether:

- the issues rose in the audit have been adequately addressed and
- the audit report recommendations are implemented in a timely manner.

At the end of December 2024 as part of System audit engagement and in March 2025 as part of Audit of accounts, the Audit Authority performed follow-up of the open findings and recommendations given in the course of previous audits.

Additionally we performed follow-up of the findings and recommendations issued in Audit of SAP IPA Information System for IPA II Programmes No: 3011-1-06-555/2 from 22/12/2023.

Also, we performed follow-up of the findings and recommendations issued by external audits, i.e. Moore Stephens' Audit on information security (ICT).

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

- **Part I:** Follow-up of findings issued within the system audits
- **Part II:** Follow-up of findings issued within the audits of operations
- **Part III:** Follow up of findings and recommendations issued within Audit of SAP IPA Information System for IPA II Programmes No: 3011-1-06-555/2 from 22/12/2023
- **Part IV:** Follow-up of the findings and recommendations issued by external audits, i.e. Moore Stephens' Audit on information security (ICT)
- **Part V:** Follow up of findings and recommendation issued by external audits, i.e. BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II)

Annual Audit Activity Report

PART I: Follow-up of findings issued within the previous system audits					
No	Finding	Recommendation	Status in December 2023	Management Response December 2024	Status in December 2024
List of findings from the Report on System Audit No. 3011-1-06-19/2 (February, 2020)					
1.	IT policy – Back up of data and trainings (Details: See section 4.6) Level of Priority: Intermediate Body/-ies concerned by the finding: All IPA bodies According to the Manual of Procedures (V2.0), chapter IT policy, section Storage of data and back-up, inter alia the following is prescribed: • All important data is backed up on a daily basis; • The IPA Body staff shall always store data in the file/applications server (servers); • The User Coordinator shall ensure that backup information is maintained according to backup policy; • The IT Coordinator shall ensure that all key servers and systems have documented backup procedures. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are backed up; • All storage media should be labelled clearly and stored in a secured, lockable fireproof safe or cabinet; • The IT Coordinator shall ensure that there are detailed restore procedures in place for each major system backed up. These procedures must be detailed and be essentially a step-by-step guide to how the task is completed for the various servers and data are restored in the event of a problem occurring e.g. a server/disk crash or lost/corrupted data. On the basis of performed on-the-spot checks and conducted interviews, we determined that archiving and backup of data is not performed in accordance with prescribed procedures. There is no properly defined back up storage. So, there is a risk of loss of data in case of error in information systems in which information is destroyed by	We recommend providing adequate archiving and back-up of data according to the procedures described in MoP Chapter IT policy in order to prevent data loss or ensure restoring of lost data. We recommend initiating and providing trainings related to IT Security policy.	Status: Partially implemented New implementation deadline: IIQ 2024 This finding was partially implemented through the previous follow-up. Bearing in mind that Action Plan ISO 27002 is outdated and it will be analyzed by IT expert and revised version of AP, covering area of relevant IS policies, will be prepared in cooperation with the Ministry of Public Administration during 1st Q 2024, finding remains open.	December 2024 MS reply: Within TA project Support to the Directorate of Management Structure, an IT expert, Mr Goran Chamurovski has been engaged in relation to resolving Information Security Policy issues. Within timeframe of 9 months (period of implementation of TA project), policies on end-user-oriented topics such as Acceptable Use of Internet and Acceptable Use of Email, Clear Desk and Clear Screen will be developed, and dissemination will be conducted through organized trainings. Namely, Action Plan ISO 27002 was outdated and it was analysed by IT expert, covering area of relevant IS policies, and prepared revised version in cooperation with the Ministry of Public Administration during 2024. In this regard, TA expert prepared information of envisaged activities in terms of deliverables under the contract for Support to Management Structure. These deliverables are: • Action plan on ISO Standard 27002 set and communicated throughout the IPA structures;	Status: Not implemented In the previous period we performed follow-ups of findings and recommendations given in DG Near/ Moore Stephens' Audit on information security (ICT). By the last Audit Status Recommendation Report No: 3011-2-06-784/1 from 26th December 2024 those issues are open (Findings: M3 and H2). New deadline: IQ 2025

	failures or negligence in storage, transmission, or processing. To mitigate the risk of losing data, the staff from IPA bodies use external hard disks and USB disks for archiving data from their computers. They perform this periodically. Previously mentioned external hard disks are stored in the premises of each IPA body. However, archiving data in this way is not secure enough and is not in accordance with prescribed procedures for back up and archiving data which are described in MoP, chapter IT policy. Also, we have concluded that employees from IPA bodies did not have enough trainings related to IT security policy. In the period under review insignificant number of employees attended few trainings related to cyber security and computer data protection. Bearing in mind the importance of IT security, using file servers, having adequate and secure data storage, employees from IPA bodies should have more trainings with regard to this policy.			• Information security policy; • Timeframe of the treatment of the referent measures respecting EC audit findings; • Holding awareness sessions on the Information Security Policy. Detailed information are attached in the presentation below:  ActionPlan_Presentation.pdf Three missions of the TA expert engaged through TA Project Support to the Management Structure took place in the period September – December 2024 during which the IT Security Policy was prepared and trainings related to the ISO 27001-2 policies were held to relevant national IPA institutions staff.  Attendance list_Training IS polic The final Proposal of the Action Plan for implementation of Information Security on the basis of ISO 27002 standard at the level of IPA framework for the period 2025-2027 is adopted on the	
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Annual Audit Activity Report

				Government session held on December 19th 2024. Also, Final version of the IS policy is attached below, as well as, training material from the trainings delivered by the expert engaged on his last mission held 3-6th December 2024. Relevant documents are enclosed below:  Materijal za VCG-Predlog AP ISO  IS Policy - Training material.pdf MSWFCD reply: In accordance with the recommendations given in the Report related to the IPA unit of the Former MLSW, after the adoption the Government's reconstruction on 23 July 2024, the newly established IPA Department at the Ministry of Social Welfare, Family Care and Demography and its IT Coordinator have warned the IT officers of the MSWFCD to ensure the secure storage of IPA data. In this regard, guidelines for the use of Shared Folders on the Cloud of the Ministry of Public	
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Annual Audit Activity Report

				Administration (Nextcloud) have been issued and the secure storage of data and its availability to all officers in the PIU have been ensured.	
2.	Inadequate and incomplete monitoring and reporting at sectoral and action level (Details: See section 4.7) Level of Priority: Intermediate Body/-ies concerned by the finding: NIPAC Office According to IPA II Implementing Regulation No 447/2014, Article 4, the National IPA Coordinator (NIPAC) shall be the main counterpart of the European Commission for the overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance. Therefore, in line with the IPA II IR, the responsibility for the monitoring of implementation belongs to the NIPAC, who has to set up an adequate monitoring framework under the OS. "The main role in reporting at programme level is with NIPAC office. Annual Report on Implementation of IPA II Assistance shall be drawn up under the coordination of NIPAC office with input from the bodies of the operating structures and related monitoring reports. When it comes to Monitoring and Reporting at Sectoral Level, the Semi-annual Action Monitoring Reports are prepared by NIPAC Office based on the inputs of the quarterly reports. Monitoring and Reporting at Action Level includes preparation of Quarterly Action Monitoring Reports which shall be drawn up under the coordination of NIPAC office and prepared by PIUs/Lead SPOs. QAMRs shall be submitted to the NIPAC office, quarterly during the year, with the following cut-off dates: 31st March, 30th June, 30th September and 31st December. QAMR shall be prepared and submitted to NIPAC office 10 working days after the cut-off dates.	We recommend to NIPAC Office carrying out proper coordination and taking all relevant and necessary activities, under its responsibility, in order to ensure that Monitoring and Reporting at Sectoral and Action Level are satisfactory and in accordance with prescribed procedures and IPA regulations. This way the potential risk of preparing and issuing Annual Report on Implementation of IPA II assistance on the basis of inadequate and incomplete information about SOPEES will be mitigated.	Status: Partially implemented New implementation deadline: 15th February 2024 After reviewing the response of auditee as well as submitted evidence, we concluded that status of recommendation given during previous follow-up, remains the same. Some improvements are made, however having in mind that all PIUs are not submitting their QMR timely, we consider the finding open. Also, having in mind that this finding is indirectly addressed to all PIUs and that there are findings: Incomplete monitoring and reporting at action level and Deficiencies in reporting on programme level	NIPAC Office reply: Building on the lessons learned to date, the overall process of monitoring and reporting was enhanced in 2024. Notably, the preparation and submission of relevant reports by PIUs have been significantly streamlined. NIPAC Office proposed additional changes to further improve the reporting framework. These changes involved replacing quarterly reporting with semi-annual reporting and developing new reporting templates, which are currently in progress. The primary aim of this adjustment is to reduce the administrative burden on both IPA PIUs and the NIPAC Office while ensuring that reports are more efficient, concise, and clear. The proposed changes were communicated to and approved by the NAO Office in March 2024 through an exception to standard procedures (documentation attached).	Status: Partially implemented Having in mind that deadline for submission of Annual Implementation Report for 2024 has not expired, finding remains open. We will monitor implementation of recommendation during activities of closure of programme. New implementation deadline: 15th February 2025

For proper coordination of the reporting requirements, NIPAC Office shall lead the process of preparing of all monitoring reports. In order to ensure timely preparation and high quality of reports, the NIPAC office shall: • Sets a time-schedule for preparing the annual reports; • Issue guidelines and instructions to SPOs/PIUs regarding their input for annual reports at Action level; • Ensures for the quality control of the input, submitted by the SPOs/PIUs; • Monitor the time-schedule for preparation of annual reports, approval and submission." Based on documentation obtained, desk checks performed and interviews conducted we determined that monitoring activities regarding IPA II 2015-2017 Multi-annual action programme for Montenegro on Employment, Education and Social policies (SOPEES) is not at satisfied level and is not in accordance with prescribed procedures. Namely, reviewing documentation related to preparation of Annual Report on Implementation of IPA II Assistance in 2018 we determined that this report was issued in time but was not based on information deriving from Semi-Annual Sector Monitoring Report. Actually, during the on the spot check at the NIPAC Office we were not presented any SASMR because this type of monitoring document has not been prepared and issued in the previous period. Due to this fact we consider that monitoring and reporting at sectoral level has not been implemented in line with prescribed procedures. Also, we determined that Monitoring and Reporting at Action Level was not at the satisfied level in the previous period. On the basis of enclosed documentation, we determined that only one PIU (MLSW) respected procedures and responsibility of drawing up Quarterly Action Monitoring Reports (QAMR) for each period of implementation while one PIU (MoS) partially fulfilled this obligation. The rest of PIUs did not respect obligation preparing and submitting QAMRs to NIPAC Office.		from the Report on System Audit No. 3011-1-06-10 (January 2023), further implementation of this recommendations will be monitored through this finding and recommendation, after submitting of Annual Implementation Report for 2023. In this context, we except from NIPAC Office to submit to AA AIR for 2023 including all supporting documents.	 Exception IPA III Semi annual reporti Following the introduction of the new procedure, all relevant line ministries, as requested by the NIPAC Office, have submitted Semi-annual reports accordingly (documentation attached).  QMR.zip	
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Annual Audit Activity Report

	Therefore, we consider that monitoring and reporting at action level has not been implemented in line with procedures. Therefore, monitoring and reporting at the sector and action level were not satisfactory in the previous period, i.e. were not carried out in line with prescribed procedures. In our opinion this may lead to potential risk that Annual Report on Implementation of IPA II assistance could be prepared on the basis of inadequate and incomplete information about SOPEES.				
List of findings from the Report on System Audit No. 3011-1-06-10 (January 2023)					
1	Delays in the payment procedure (Details: See section 4.1) Level of Priority: Intermediate Body/-ies concerned by the finding: Implementing Agency - CFCU According to the PRAG (Version 2020.0), Annex II General conditions applicable to European Union-financed grant contracts for external actions Article 15 — Payment and interest on late payment following is stipulated: “ 15.1. The contracting authority must pay the grant to the coordinator following one of the payment procedures below, as set out in Article 4 of the special conditions. <u>Option 2: Actions with an implementation period of more than 12 months and grant of more than EUR100 000</u> (i) an initial pre-financing payment of 100 % (ii) further pre-financing payments of 100 % of the part of the estimated budget financed by the contracting authority for the following reporting period (excluding not authorised contingencies): - within 60 days following the end of the reporting period, the coordinator shall present an interim report or, if unable to do so, it shall inform the contracting authority of the reasons and provide a summary of progress of the action, 15.4. The initial pre-financing payment shall be made	We recommend improving controls within the payment procedure in order to ensure that provisions of contracts signed as well as provisions prescribed by PRAG, General conditions, and which are related to payment procedures, payment deadlines and suspension of the period for payments, are fully respected.	Status: Not implemented From the reply of the auditee it is evident that IA/CFCU did not take into consideration the final conclusion of AA related to this finding given in Final Report on System Audit No. 3011-1-06-10 (January 2023). During system audit performed during 2023 we determined that this recommendation was not implemented. Namely, analyzing the documentation related to contracts from the sample we found certain deficiencies within the whole payment procedure (from sending request	CFCU reply: CFCU will continue to work diligently to ensure full compliance with the established procedures and timelines. We understand the importance of adhering to the payment procedures and will make every effort to address the identified deficiencies moving forward. We will closely monitor all steps of the payment process, from the request for payment to the final execution, and take all necessary actions to prevent any further delays. Furthermore, we will ensure that any additional documentation or information is provided within the required timeframe, in line with the provisions set forth in the General Conditions for Grant Contracts. The implementation of these measures will be continuously monitored to ensure full alignment with the relevant	Status: Not implemented AA's auditors note response of auditee and concluded that this issue has been considered in an appropriate way. Also, having in mind that all payments for contracts from Sopees were completed in 2023, we consider that this finding is no longer applicable in 2024. However, in order to avoid similar situation in the future for other programmes (especially OP ESI 2024-2027), we expected that the CFCU would provide us with evidence of payments for contracts from other programs in their jurisdiction, to convince us that there are no delays in the payment procedures. Therefore, this finding remains open. During the closure of programme we will check the

within 30 days of receipt of the payment request by the contracting authority. Further pre-financing payments and payments of the balance shall be made within 60 days of receipt of the payment request by the contracting authority... 15.5. Without prejudice to Article 12, the time-limits for payments may be suspended by notifying the coordinator... The suspension of the time-limits for payments starts when the above notification is sent to the coordinator. The time-limit starts running again on the date on which a correctly formulated request for payment is recorded. The coordinator shall provide any requested information, clarification or document within 30 days of the request. If, notwithstanding the information, clarification or document provided by the coordinator, the payment request is still inadmissible, or if the award procedure or the implementation of the grant proves to have been subject to irregularities, fraud, or breach of obligations, then the contracting may suspend payments, and in the cases foreseen in Article 12, terminate accordingly this contract..." Analysing the documentation related to sample of 8 contracts, we found certain deficiencies within the whole payment procedure (from sending request for payment to the payment execution) for grant contracts CFCU/MNE/109, CFCU/MNE/110 and CFCU/MNE/130. We determined significant difference between dates of sending requests for payment by coordinator/grant beneficiary and dates of receipts of RfPs by IA - CFCU, violation of time-limits for providing information on requests for clarifications and consequently delays in payment execution. Namely, request for further pre-financing for grant contract CFCU/MNE/109, supported with narrative and financial interim report, dated on 10/04/2021, was received by CFCU on 13/05/2021. Time-limit for payment was suspended due to requests for additional information and clarification and it lasted from 04/06/2021 until 09/12/2021. During this period CFCU sent 4 requests for additional clarifications and received requested information with		for payment to the payment execution). E.g. Request for final payment for grant contract CFCU/MNE/129 supported with narrative and financial report, dated on 10/6/2022, was received by CFCU on 15/6/2022. Time-limit for payment was suspended as follows: 21/9/2022-28/9/2022; 28/9/2022-20/10/2022; 20/10/2022-28/11/2022; 5/12/2022-23/2/2023. OTSC was performed on 20/12/2022. Suspensions were related to the issuing of the Written approval - RFAI and OTSV. Finally, written approval was issued on 13/4/2023 and payment was executed on 4/5/2023. Also, in connection with the next finding, we determined that PIU MESI (former MSTD) did not attend OTSC, which is not in accordance with the provision of MoP of PIUs, where it is stated that for grant contracts,	auditing standards and regulatory requirements.	adherence of payment deadlines for payments for contracts from other programmes.
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	significant delays which means that grant beneficiary didn't provide information within 30 days. Finally, written approval was issued on 15/12/2021 and payment was executed on 27/12/2021. Request for further pre-financing for grant contract CFCU/MNE/110 (supported with narrative and financial interim report), dated on 20/04/2021, was received by CFCU on 18/05/2021. Period for payment was suspended by notifying beneficiary about requested information and suspension lasted until 14/10/2021. Requested information hasn't been provided within prescribed deadline. Furthermore, we determined certain inconsistencies between data in <i>Checklist for Grant contracts Interim payments</i> and data in <i>Checklist for Grant contracts: Financial reports</i> and which are related to dates/periods of suspension. Written approval was issued on 21/10/2021 and payment was executed on 22/11/2021. Also, we determined that request for payment of the balance for grant contract CFCU/MNE/130, dated on 05/11/2021, was received by the CFCU on 08/12/2021. Request for payment was supported with detailed breakdown of expenditure and narrative and financial final report. Time-limit for payment was suspended on 02/12/2021 and grant beneficiary provided clarification on 19/01/2022 so the total number of suspension days was 48. Payment was executed on 03/03/2022. Summarized data is presented in following table:		PIU shall attend at least one on-the-spot verification. Request for final payment for grant contract <u>CFCU/MNE/122</u> supported with narrative and financial report, dated on 1/6/2022, was submitted in CFCU on 7/6/2022. Written approval was issued on 23/11/2023 and payment executed on 30/11/2023. In the meantime, there were 6 suspensions. e.g Suspension in the period from 6/4/2023 to 4/10/2023 was for reason waiting for the additional documentation from the beneficiary requested on OTSC which was performed on 3/4/2023. We would like to point out again that Article 15.5 of the General conditions for grant contracts stipulates that in case of suspension of payments any requested information, clarification or document shall be		
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Annual Audit Activity Report

	<table><tr><th>No of grant contract</th><th>Date of Request for Payment</th><th>Date of receipt of Request for Payment</th><th>Start date of suspension period</th><th>End date of suspension period</th><th>Adjusted deadline for payment execution</th><th>Date of payment</th></tr><tr><td>CFCU/MNE/ 109</td><td>10/04/2021</td><td>13/05/2021</td><td>04/06/2021 26/06/2021 21/07/2021 05/10/2021</td><td>26/06/2021 14/09/2021 05/10/2021 09/12/2021</td><td>15/02/2022</td><td>27/12/2021</td></tr><tr><td>CFCU/MNE/110</td><td>20/04/2021</td><td>18/05/2021</td><td>18/05/2021 01/09/2021 01/10/2021</td><td>20/08/2021 20/09/2021 14/10/2021</td><td>20/12/2021</td><td>22/11/2021</td></tr><tr><td>CFCU/MNE/130</td><td>05/11/2021</td><td>8/12/2021</td><td>02/12/2021</td><td>19/01/2022</td><td>25/04/2022</td><td>03/03/2022</td></tr></table> Therefore, these delays in payment procedure compared to the date of receipt of payment requests could lead to risk that activities wouldn't be implemented by grant beneficiary as it was planned due to insufficiency of available funds. Also, there is a risk of additional costs due to delays because if the contracting authority pays the coordinator after the time limit, it shall pay default interestas.	No of grant contract	Date of Request for Payment	Date of receipt of Request for Payment	Start date of suspension period	End date of suspension period	Adjusted deadline for payment execution	Date of payment	CFCU/MNE/ 109	10/04/2021	13/05/2021	04/06/2021 26/06/2021 21/07/2021 05/10/2021	26/06/2021 14/09/2021 05/10/2021 09/12/2021	15/02/2022	27/12/2021	CFCU/MNE/110	20/04/2021	18/05/2021	18/05/2021 01/09/2021 01/10/2021	20/08/2021 20/09/2021 14/10/2021	20/12/2021	22/11/2021	CFCU/MNE/130	05/11/2021	8/12/2021	02/12/2021	19/01/2022	25/04/2022	03/03/2022		provided within 30 days of the request. Therefore, this finding remains open.		
No of grant contract	Date of Request for Payment	Date of receipt of Request for Payment	Start date of suspension period	End date of suspension period	Adjusted deadline for payment execution	Date of payment																											
CFCU/MNE/ 109	10/04/2021	13/05/2021	04/06/2021 26/06/2021 21/07/2021 05/10/2021	26/06/2021 14/09/2021 05/10/2021 09/12/2021	15/02/2022	27/12/2021																											
CFCU/MNE/110	20/04/2021	18/05/2021	18/05/2021 01/09/2021 01/10/2021	20/08/2021 20/09/2021 14/10/2021	20/12/2021	22/11/2021																											
CFCU/MNE/130	05/11/2021	8/12/2021	02/12/2021	19/01/2022	25/04/2022	03/03/2022																											
2	Non-compliance with procedures related to OTSV (Details: See section 4.2) Level of Priority: Intermediate Body/-ies concerned by the finding: CFCU/IA and MSTD (PIU) According to the Manual of Procedures, chapter Contract				We recommend to perform on-the-spot verifications in line with prescribed procedures regarding participation of representatives of the	Status: Not implemented From the reply of the auditee it is evident that IA/CFCU and PIU (former MSTD, now MESI) did not take into	CFCU reply: Grant contract CFCU/MNE/130: In accordance with the procedure, the CFCU regularly informs the project managers from the line ministries about the	Status: Not implemented AA's auditors note response of auditee and concluded that this issue has been considered in an appropriate way. Also, having in																									

implementation and OTSV, section 4 On the spot verifications, the following is stipulated: "On-the-spot verifications are important elements of internal control as a monitoring tool to ensure that the implementation of contracts and the financial procedures set out within IA are in accordance with IPA II and national rules and follow the principle of sound financial management. The aim of the on-the-spot verification is to identify whether the contracts which are financed from IPA II Action Programmes were: • implemented properly in accordance with the contract conditions (for completed projects) • if the implementation of the contracts is ongoing according to the documents which are provided to the IA, i.e. on-the-spot verification is performed for the already implemented contracts as well as for the contracts under the implementation. These verifications shall cover administrative, financial, technical and physical aspects of operations, as appropriate, and will check compliance with rules. During the on-the-spot verifications the comparison is done of the contracted, actual and reported from the point of view of scope, quantity, time schedule, etc... The on-the-spot verification must be performed by at least two IA staff members (Notes: In case of work contracts, OTSV shall be performed by the Supervisor and Contract Manager. In case of service contracts for supervision of works, OTSV shall be performed by two IA Contract Managers. In case of all other types of contracts, including service contracts, OTSV shall be performed by the IA Contract Manager and Financial Controller). Representatives of the Contractor/Grant beneficiary participate in the on-the-spot verification. Representatives of the responsible PIU and the responsible beneficiary institution(s) are always invited to take part in the on-the-spot verifications. However, for service contracts, representatives of the responsible PIU and beneficiary institution(s) are not obliged to attend on-the-spot verifications; for grant contracts, they shall attend at least	responsible PIU. We recommend that on-the-spot verifications are performed with purpose of gathering information that are needed for issuing written approval and checking if the implementation of the contracts is ongoing according to the documents which are provided to the CFCU.	consideration the final conclusion of AA related to this finding given in Final Report on System Audit No. 3011-1-06-10 (January 2023). See previous answer in part related to the <u>CFCU/MNE/129.</u>	exact date when the OTSV is scheduled, while the decision to attend the verification is made by the competent PIU. Attached is an email correspondence and an official letter as proof that PIU representatives were informed about the OTSV scheduled for 01/18/2022. OTSC announcement CFCI On-the-spot checks in respect of individual operation (i.e., contract or grant project) are conducted in terms of administrative aspects, technical, physical, and financial progress. This type of verification is foreseen to check the reality of the operation, to confirm that the expenditure declared has been incurred in accordance with applicable rules, the products and/or services have been delivered in accordance with the approval decision and the payment request by the final beneficiary, or contractor is correct. Bearing in mind that each grant contract has its own specificities (purpose of the project, number of project activities, type of costs, experience/inexperience of the grant beneficiary, realized or newly created risks...) the	mind that all written approval for contracts from Sopees were completed, we consider that this finding is no longer applicable. However, in order to avoid similar situation in the future for other programmes we expected that the CFCU and MESI would provide us with evidence of OTSV for contracts from other programs in their jurisdiction, to convince us that there is no non-compliance with procedures related to OTSV. Therefore, this finding remains open. During the next follow up we will check this issue.
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one on-the-spot verification, while for supply and work contracts, representatives of the responsible PIU and beneficiary institution(s) shall always attend the announced on-the-spot verification.” Grant contract CFCU/MNE/130 (M1.0.2.04.02.C03) was concluded on 9/3/2020 to finance the implementation of the action entitled: 3D Virtual Heritage. Implementation period started on 10/3/2020 and ended 18 months later on 10/9/2021. From the start of implementation of contract two on the spot verifications have been performed. The first OTSV was performed during the implementation period, i.e. on 28/5/2021, and its purpose was to determine if the implementation of the contract is ongoing according to the documents which were provided to the IA. According to the OTSV Report, documentation that had been verified had no irregularities. The second OTSV was performed on 18/1/2022 and its purpose was to review supporting documentation for the activities implemented during entire contract implementation period before the final payment is made. The conclusion in the OTSV Report was also that documentation that had been verified had no irregularities. Representatives of the responsible PIU (PIU Ministry of Science from the start of implementation period and after December 2020 PIU Ministry of Education, Science, Culture and Sports) didn't participated in either of the two OTSVs for this grant contract. Consequently, responsible PIU's support in covering technical aspects of the contract wasn't provided. Moreover, payment request for further pre-financing for grant contract CFCU/MNE/110 dated 20/04/2021, was received on 18/05/2021 by CFCU. Grant beneficiary requested reallocation between the budget headings above 25%. The first suspension of payment started from the day of receipt of payment request and lasted until 20/08/2021, even though on-the-spot verification was performed by CFCU on 23/7/2021. As a result of this OTSV, it was concluded that required information (car log book) should be submitted to CFCU at the latest by 30/07/2021 and no more irregularities were identified. After this, there were two more suspensions due to requests for			purpose of the OTSV must be adapted to that circumstances. Furthermore, the OTSV is time-limited, so IA controllers focus on what cannot be desk-based checked. It is not possible to carry out OTSV in the same way for all grant projects, so some contracts require an additional check even after OTSV for the reasons mentioned above. In any case, the information needed for issuing written approval for contracts CFCU/MNE/110 and CFCU/MNE/109 was collected during OTSV. For example, as stated in the OTSV report for contract CFCU/MNE/110 "...the CFCU team visited the space (apartment) which is being rented, so called "emergency accommodation...". This is exactly the purpose of on-the-spot checks bearing in mind that this cannot be verified on the basis of desk-based check, while the information is important for issuing written approval. MESI reply: Following the parliamentary election process in 2020 and the new organization of state administration in line with the Regulation on the organization and mode of work of the state administration adopted in	
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	additional information. Finally, written approval was issued on 21/10/2021 and payment executed on 22/11/2021. Additionally, payment request for further pre-financing for grant contract CFCU/MNE/109 dated 10/04/2021, was received on 13/05/2021. There were two requests for additional information before planned OTSV was performed on 30/07/2021 with no findings and irregularities and advice regarding licensing issue. After performed OTSV, the procedure and control activities for issuing the written approval lasted until 15/12/2021, and finally payment executed on 27/12/2021. Taking into account all previously described, we consider that on-the-spot verification for this grant contract, in general, didn't fulfil its purpose.			December 2020 (Official Gazette of Montenegro, 118/20 and 121/20), IPA activities have been passed on to the newly-established (at that time) Ministry of Education, Science, Culture and Sports and thus new PIU took over their implementation. Due to that reason, PIU of the former Ministry of Science (MoS) has ceased to exist so the previously appointed persons within the former MoS did not have the authority to carry out these activities in the mentioned period. Two years later, state administration underwent structural changes once again. Namely, a new Regulation on the organization and mode of work of the state administration adopted in May 2022 (Official Gazette of Montenegro, 049/22, 052/22, 056/22), by which the current Ministry of Science and Technological Development (MSTD) was established. Activities on IPA in the field of science and innovation, therefore, been once again transferred to the MSTD which remained in charge until new organization of state administration has not entered into force in October 2023 (Official Gazette of Montenegro, 98/23, 102/23, 113/23). PIU within newly established Ministry of Education, Science and	
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Annual Audit Activity Report

				Innovation (MESI) took over implementation of activities related to science and innovation. Again, previously appointed persons within the former MSTD were no longer in charge of these activities. PIU implementation managers of the MESI participated in all the OTSV of projects under the Grant scheme "Scientific potential in support of innovation development", performed by the CFCU. By amending the Regulation on the internal organization and systematization of the Ministry in October 2024, two separate divisions for IPA were formed: one, for activities in the field of education and the other one that will implement activities in the field of science and innovation. Bearing in mind all the above mentioned, the IPA unit for science and innovation was unable to actively monitor previous activities. In order to preserve institutional memory on adequate level and to fulfil all prescribed upcoming obligations from procedures, IPA unit for science will put additional effort in this manner.	
List of findings from the Report on System Audit No. 3011-1-06-263 (January 2024)					
1.	Lack of employees in CFCU (Details: See section 4.1)	We recommend to CFCU to recruit	Open	CFCU reply:	Status: Not implemented

	Level of Priority: Major Body/-ies concerned by the finding: IA CFCU/NAO Based on insight into submitted documentation during the audit performed, we determined the following: - Envisaged number of work posts in the Rulebook on internal organization and systematization of the Ministry of Finance adopted by Government of the Montenegro on 28/7/2022 was 40. At the session held on 7/12/2023 Government of the Montenegro adopted new Rulebook on internal organization and systematization of the Ministry of Finance, by which envisaged number of work posts is raised to 41 including head of CFCU. By Overview of Staff from December 2023, actual number of employees in CFCU is 29. One of 29 employees (Financial manager) is temporarily assigned to the Revenue and Customs Administration and 5 employees is on maternity leave, which means that currently in CFCU 23 employees (56%) are engaged. - At the Government session held on 14/12/2023, Ms Jelena Davidović was dismissed from the position of Head of IA – CFCU. - Head of Financial Division left CFCU on 29/12/2023.	necessary numbers of staff in accordance with the newly adopted Rulebook.		According to the Rulebook on Internal Organization and Systematization of the Ministry of Finance, the official number of employees in the CFCU is 40. Ms. Sanja Bečanović has been engaged as Acting Head of the CFCU since January 2024, based on the Decision of the Government of Montenegro. Her mandate was extended in July 2024, after six months in the position. In the Finance and Accounting Division, Mr Miloš Dragičević was appointed as Head of the Division in January 2024. There were no staff fluctuations by the end of 2024. However, one temporary employment contract was concluded in July 2024 and a permanent employment decision for an accountant position was made in December 2024. In the Contracting Division, Dragomir Marković, the former Head of the Division, left in March 2024 and Jelena Vujadinović was appointed as the new Head. Two employees, who had previously been employed on a temporary basis, have had their contracts converted to permanent positions following the regular employment	It is obvious that there is a lack of employees in CFCU. Therefore, finding remains open.
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Annual Audit Activity Report

				process with the Human Resources Management Authority. Regarding the Quality Assurance Division, no additional recruitment has taken place, as no public announcements were planned for this division in accordance with the Ministry of Finance recruitment plan for the year 2024. As a result, the division is still understaffed by five additional employees with only two Quality Assurance Specialists currently working in the division. However, it is worth mentioning that one employee is engaged on a temporary basis starting from December 2024. This employee will be initially engaged in the Contact Division, in order to gain certain experience in managing procurements and grants in line with EU rules and, afterwards, the plan is to transfer the employee in subject to the Quality Assurance Division. In that sense, procedure of filling in additional positions in the Quality Assurance Division will be initiated.	
2.	Non-eligible Invoice based purchase (Details: See section 4.2) Level of Priority: Major Body/-is concerned by the finding: Implementing Agency – CFCU and DMS During the audit we determined that CFCU purchased 2 computers (4M5F3EA HP 290 G3 SFF Win 11 PRO/13-10105/8GB/256GB SSD/DVDRW/KB+Mouse ASUS	We recommend to CFCU to perform procurement exclusively in accordance with approved Operational Identification Sheets.	Open	General response: Recommendation not accepted. Purchase of equipment for DMS is treated as small purchase, due to available funds. In accordance with PRAG conditions, supplies with a value of less than or equal	Status: Not implemented We understand the specific needs for purchase of two computers. However, without the changes of OIS and given the lack of an adequate audit trail (internall agreement at the

	VP247HAE LED 23,6" Monitor) for the Directorate for Management Structure (DMS) by Invoice based purchase. Performed purchase is not in line with approved Operation Identification Sheet: <i>Supporting Operating Structure in the management and implementation of the Sectoral Operational Programme (SOPEES) (Ref. Ares (2020)4729705 - 10/09/2020)</i>, under Action 4: Technical Assistance. Namely, Annex XIII of Financial Agreement (OIS) prescribes Invoice based purchase aiming to purchase office furniture for the Directorate for Management Structure (DMS) in the Ministry of Finance, in order to equip their additional conference room and thus ensure adequately furnished space for holding meetings as follows: <table><tr><th colspan="4">Supply Contract (Invoiced based purchase)– Purchase of office furniture for the Directorate for Management Structure (DMS)</th></tr><tr><th colspan="2">EU funding in €</th><th>Co-financing in €</th><th>Total budget in €</th></tr><tr><td>2020</td><td>1.098,75</td><td>193,90</td><td>1.292,65</td></tr><tr><td>Total</td><td>1.098,75</td><td>193,90</td><td>1.292,65</td></tr></table> Bearing in mind the above mentioned, we can conclude that supply of IT equipment instead of furniture, is not eligible for financing from EU Funds.	Supply Contract (Invoiced based purchase)– Purchase of office furniture for the Directorate for Management Structure (DMS)				EU funding in €		Co-financing in €	Total budget in €	2020	1.098,75	193,90	1.292,65	Total	1.098,75	193,90	1.292,65	The expenditure in the overall amount of 1,278.00€ (Eu part 1,086.30€; NC 191,70€) is considered ineligible for being financed from the Programme.		to 2.500,00 EUR, the Contracting authority may pay on the basis of an invoice. As per last approved OIS, this purchase was planned for 2020, for new premises to which DMS was expected to be moved. However, due to the fact that DMS was not moved, purchase is postponed. Respecting overall objective of SOPEES programme: “To enhance capacity of the Operating Structure for effective and efficient management and implementation of IPA and future European Structural Fund (ESF)...” and operation purpose: “To ensure a high level of efficiency in using the available IPA funds in line with the EU rules through an efficient implementation of the SOPEES” and specifically taking into account cyber-attack at the Governmental IT network occurred in August 2022, needs of DMS changed and for the available funds from the technical assistance measure it was internally agreed (at the coordination meetings) that funds will be used for the specific need at that moment – purchase of two computers. Due to amount of available funds, not written communication in this regard is performed.	coordination meetings), we consider the finding open. New implementation deadline: 15th February (Annual accounts)/Final statement of expenditure. During the Audit of accounts, we noticed that expenditure was not excluded from AFR for 2024.
Supply Contract (Invoiced based purchase)– Purchase of office furniture for the Directorate for Management Structure (DMS)																					
EU funding in €		Co-financing in €	Total budget in €																		
2020	1.098,75	193,90	1.292,65																		
Total	1.098,75	193,90	1.292,65																		
3.	Absence of prescribed deadlines for providing of Read and approved visa	We recommend prescribing deadlines	Open	MLES D reply:	Status: Not implemented																

	(Details: See section 4.3) Level of Priority: Intermediate Body/-ies concerned by the finding: all PIUs in IPA perspective II/IBPM in IPA perspective III The tasks of the SPOs/PIUs with regard to payments to the contractors/grant beneficiaries inter alia cover the issuing of "Read and approved" visa for reports under service contracts, FWC and grant contracts. Auditors reviewed documentation related to the issuing of Read and Approved Visa for reports under contracts in sample and noticed that time needed for providing of Read and Approved Visa ranges from one to nine months (CFCU/MNE/119 – 9 months). For the reason of waiting for R&A Visa to be approved by PIU, for the final payment for contracts CFCU/MNE/132 and CFCU/MNE/122 IA CFCU suspended time-limit for payment. Reviewing MoP of PIU, we noticed that in the MoP of PIUs deadlines related to the providing of Read and approved visa to the IA are not prescribed. Also, we consider that waiting for providing of R&A Visa cannot be reason for suspension of payment. Bearing in mind the above mentioned, we concluded that the absence of prescribed deadlines as well as too long time for providing of Read&Approved Visa by PIUs can lead to lack of respect of deadlines prescribed in the PRAG rules (General Conditions of the Contracts) related to the execution of the payments to the grant beneficiaries. Accordingly, delays in payment procedure cause risk of additional costs. Namely, the contracting authority shall pay default interest, if it pays the contractor after the time-limit.	in Manual of Procedures of PIUs (in IPA III perspective MoP of IBPM) for providing of Read and Approved visa, in order to ensure that provisions of contracts signed as well as provisions prescribed by PRAG, General conditions, which are related to payment procedures and payment deadlines, are fully respected in the future.		Manual of Procedures describes the systems, processes and procedures set up by the European Commission and Montenegrin Government aiming to ensure the proper and effective management of EU Funds. Since the MOP does not prescribe deadlines for providing of Read and Approved visa, we will initiate its modification, in the part considering the prescription of deadlines for issuing R&A visa. MWFCD reply: In accordance with the audit's recommendations, the Head of IPA body and the MOP Coordinator of the IPA Unit MSWFCF will propose and in the close cooperation with all IPA bodies initiate changes within the Manual of procedures in order to clearly define the deadlines required for issuing R&A visa in order to ensure that provisions of contracts signed as well as provisions prescribed by PRAG, General conditions, which are related to payment procedures and payment deadlines, are fully respected in the future	Having in mind that Rulebook of procedures of (IBPM/MA) has entered into force, but does not prescribe deadlines for providing the Read and Approved visa, the finding remains open.
4.	Inadequate internal organization of Finance and Accounting Unit (Details: See section 4.5) Level of Priority: Intermediate Body/-ies concerned by the finding: IA CPA Based on the insight into submitted documentation during	We recommend to the CPA: We recommend ensuring the position of at least one more Financial Controller in	Open	CPA reply: The proposal of Rulebook on Internal Organization and Systematization was given for approval, and the same proposal	Status: Partially implemented The position of the second financial controller is included in the Rulebook on Internal Organization and Systematization which has been

Annual Audit Activity Report

	the audit performed, we determined the following: □ In the Rulebook on internal organization and systematization of the CPA envisaged number of work post in the Finance and Accounting Unit is three: Head of Unit, Financial controller and accountant. Having in mind overall responsibilities of CPA as IA related to IPA perspective II as well as IBFM to IPA perspective III, we consider that envisaged number of work post for Financial controller is not enough, which can have a great impact on the quality and continuity of business operations, e.g. adequate substitution policy cannot be ensured. □ Additionally, pursuant to Exception from the standard procedure exclusion of financial controller 2 was introduced in the financial department of the CPA. Deputy of NAO approved this exception in March 2022. According to the MoP procedures, in case of exceptions due to procedure failure/incompleteness, the procedure for modification of the MOP should apply. In urgent and duly justified cases, when there is not enough time for the MOP modification and the activity/process needs to be approved without any delay (e.g. deadline etc.), the procedure for requesting and recording exceptions should be followed and then the relevant part of the MOP shall be modified accordingly. Since this exception was approved in March 2022, we think that there was enough time to adjust procedures. Also, we consider that exception related to exclusion of controls of FC and just verification and approval of performed controls, without comments or justification by the Head of FD / Head of Sector for the realisation of IPA project/Head of IA can have an impact on the quality of the performed controls. □ Additionally, the position of the Head of the Sector for the realisation of IPA projects is currently vacant.	the Rulebook on Internal Organization and Systematization and performing the recruitment procedure. We recommend filling the vacancy position of the Head of the Sector for the realization of IPA projects.		included the position of the second financial controller. Please note that an employee has already been hired to the position of the second financial controller under the Temporary contract, and after the adoption of the systematization, the process of permanent employment will begin. In the proposal of Rulebook on Internal Organization and Systematization, the position of Head of the Sector for the realization of IPA projects. is also planned, and the procedure for, the process of permanent employment will be carried out after the final adoption of the systematization.	officially addopded on 26/12/2024 (after auditee's response). Since the position of the Head of the Sector for the realization of IPA projects is still vacant, we consider recommendation partially implemented.
5.	Non-compliance of the order of steps prescribed in the procedure (Details: See section 4.6) Level of Priority: Intermediate Body/-ies concerned by the finding: PIU/MLSW and IA	We recommend to the CFCU and PIU MLSLW to improve controls in order to ensure respecting the order of steps	Open	MLESd reply: The PIU MLESd has assigned the Internal Control Coordinator in order to ensure respecting the order of steps prescribed in MoP. MSWFCD reply:	Status: Implemented We took into consideration the auditee's response. Considering that this issue has no further impact on the contracts from the

CFCU During the audit, we determined non-compliance of the order of steps prescribed in the procedure as follows: - in MLSW we noticed that Annex 4 - Checklists for administrative check of the reports, for the purpose of issuing "Read and approved" visa, were signed by SPO after the R&A visa had already been issued for Final narrative reports under the following contracts: - o contract CFCU-MNE-119 "Read and Approved" visa was issued on 24.05.2023. and Check list was signed by a person in the capacity of the SPO on 25.05.2023; - o contract CFCU-MNE-112 "Read and Approved" visa was issued on 20.07.2022. and Check list was signed by a person in the capacity of the SPO on 21.07.2022. Above mentioned is not in accordance with MoP 2.0\Part II\PIUs \ Chapter IV Contract implementation in which stated: .. After beneficiary institution(s) approval, narrative reports are approved by SPOs by providing "Read and approved" visa on the reports to the IA. Prior to approval of the reports the SPO/PIU shall filled-in and signed relevant checklist. ➤ In CFCU we determined that Notification letter to the Contractor/Grant beneficiary was sent after the payment had already been executed for the payments under contracts: - o contract CFCU-MNE-112: payment was executed on 17.11.2022. and Notification letter to the contractor sent on 09.12.2022. - o contract CFCU-MNE-119 payment was executed 03.08.2023. and Notification letter to the contractor sent on 04.08.2023. Above mentioned is not in accordance with MoP 2.0\Part	prescribed in the procedure.		It was evident that there was an omission in the sampled grant contracts under the jurisdiction of the former MLSW, which we can not say for all grant contract within the SOPEES Programme. However, newly established IPA body in the Ministry of Social Welfare, Family Care and Demography during the issuance of the "Approved and read" visa for the grant projects that are implemented under the CAP 2020 will take into consideration that the procedures will be respected and the Checklist for administrative check of the reports will be signed before issuing the "R&A" visa. In this regard, controls in order to ensure respecting the order of steps prescribed in the procedure between CFCU and PIU MSWFCD will be improved CFCU reply: We would like to state that while the identified control failures do not have any direct financial implications, we recognize that such technical errors could pose a risk to the reputation of the Implementation Agency (IA). However, it is important to note that this issue is related to procedural execution rather than a financial discrepancy. We assure you that we will continue to rigorously follow the official	SOPEES program, and that it is evident that the auditees are aware of the importance of the issue are ready to address it properly in the future, we consider the finding closed.
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	II\IAs Financing management Table 2: steps 15. Prepares Notification letter to the Contractor/Grant beneficiary 16. Execution of payment. Those failures in controls do not have financial implications. However, reputation of IA can be jeopardised when contractors/grant beneficiary after execution of payments receives Notification letter with information that payment will be made.			procedures, with a strong focus on maintaining the integrity of the process. Protecting the reputation of IA and ensuring compliance with the prescribed standards remain our primary priorities. We are committed to addressing this matter by reinforcing our internal controls and ensuring full alignment with the established protocols moving forward.	
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Table 8

Annual Audit Activity Report

In 2019 AA carried out system audit that included all IPA bodies which constitute managing and operating structure for 2015-2017 SOPEES, seven findings and recommendations had been given out of which five were implemented, one is partially implemented and one is not implemented.

In system audit carried out during 2020 six findings and recommendations had been given which all were implemented.

Within system audit conducted in 2021, five findings and recommendations were issued which all were implemented.

Within system audit conducted in 2022, six findings and recommendations were issued out of which four are implemented and two not implemented.

Within system audit conducted in 2023, six findings and recommendations had been given out of which one two are implemented, 1 is partially implemented and 3 not implemented.

Within the system audit conducted in 2024, five findings and recommendations are given. Based on information and evidence submitted by Deputy NAO in February 2025, one finding is closed.

Total number of determined findings and recommendations with status of implementation of recommendation is given in table below:

<i>Period</i>	<i>No of identified findings and given recommendation</i>	<i>No of implemented recommendation</i>	<i>No of partially implemented recommendation</i>	<i>No of non-implemented recommendation</i>
2019	7	5	1	1
2020	6	6	0	0
2021	5	5	0	0
2022	6	4	0	2
2023	6	2	1	3
2024	5	1	0	4

Table 9

Part II: Follow-up of findings issued within the audits of operations			
List of system findings from the Report on the Audit of operations No. 3011-2-06-181 (6 th March 2023)			
No	Finding	Recommendation	Status in December 2024
1.	Inadequate recording of assets (CFCU/MNE/175) Details: See section 2.1) Body/-ies concerned by the finding: Ministry of Education (MoE)/Ministry of Education, Science and Innovation (MESI) The Law on State-Owned Property stipulates the obligation of keeping records of the state-owned property as well as obligation of establishing single records of the state-owned property. The authorities shall submit data on movable and immovable items to the authority in charge of property operations in electronic form, for the purpose of keeping Real Estate Registry, i.e. accounting records of movable items, and the same authorities shall submit by the end of February of the current year for the previous year. The subject of supply contract CFCU/MNE/175 "Purchase of teaching aids and IT equipment for schools in Montenegro" was equipping 40 schools in Montenegro with 19 identical items. By reviewing and analysing documentation and during the fieldwork related to supply contract CFCU/MNE/175, we determined that equipment, which was delivered in December 2021, was not adequately recorded/listed into the schools' registers because it doesn't have assigned registration numbers and purchase value in line with Annex IV Budget breakdown of this contract.	We recommend that all equipment purchased for forty schools through supply contract CFCU/MNE/175 be properly listed and entered into the property register of schools with purchase values and registration numbers assigned in order to ensure that the exact location and user of each item is easy to identify.	Status: Partially implemented New implementation deadline: I Q 2025 During previous follow-up we consider recommendation partially implemented. We have noted evidence submitted. However, to ensure full implementation of the recommendation, it is necessary to submit to us property registers of all schools with purchase values and registration numbers assigned.
2.	Transaction Finding No: 1 Ineligible expenditure related to VAT Project name and number: Support to Self-Employment No. CFCU/MNE/086 Body/-ies concerned by the finding: CFCU (IA), EAM, NF CFCU issued written approvals and recognized costs on the basis of incomplete documentation and for the amounts of advance payments which EAM paid to sub-grant beneficiaries within the first and second public calls. At the moment of issuing these 2 WAs, amounts which EAM reported to CFCU were not related to costs which had been incurred, accepted and supported with relevant documents, i.e. did not satisfy all conditions to be treated as recognized costs. Bearing in mind previously described, i.e. that recognized and declared costs within Direct Grant Contract included VAT, we consider this cost ineligible for financing from the Programme. Based on documentation obtained, we couldn't determine exact amount of VAT included in the recognized costs for selected sub-grant contracts within the 2nd public call, so we had limitation in determining the total amount of	Recommendation: We recommend CFCU to strongly respect the provisions of relevant regulation and issue written approvals only for costs which have been actually incurred, accepted, paid and supported with appropriate documentation. We recommend to CFCU, in coordination with EAM, to exclude VAT from all costs which were approved and declared within Direct Grant Contract	Status: Partially implemented During audit of accounts we determined that CFCU issued Written approval of the Final Report, in which it is stated "Bearing in mind that VAT is not acceptable, the amount approved under this WA was deducted for the amount of VAT accepted within previous Written approval". Also, in Correction of Written approval of the Final report it is stated "calculated VAT under direct award is in the amount of 205.717,85€". By the Insight into AFR 1 item cost recognized we determined that this finding is properly treated, as well as in the accounting system of CFCU. Since Final Statement of expenditure is not submitted to EC, we consider the recommendation partially implemented. Insight into AFR 1 item cost recognized we determined that this finding is properly treated.

Annual Audit Activity Report

	reported/declared VAT, i.e. total amount of ineligible costs.	CFCU/MNE/086 and, in line with this, to NF to correct the amount of reported recognised costs in the next Declaration of Expenditure	Since that Final Statement is not submitted to EC, we consider the recommendation is partially implemented.
3.	Finding No: 2 Inadequate calculation of liquidated damages Project name and number: Purchase of teaching aids and IT equipment for schools in Montenegro No. CFCU/MNE/175 Body/-ies concerned by the finding: CFCU(IA), Ministry of Education (MoE) The total amount of payments made regarding supply contract CFCU/MNE/175 was greater than it should have been, because liquidated damages were calculated for 13 visited schools and not for remaining 27 school to which the identical equipment was delivered. Therefore, the amount of 3.207,60 € is considered ineligible.	Recommendation: The expenditure in the overall amount of 3.207,60 EUR (EU contribution 2.726,46 EUR and national contribution 484,14 EUR) is considered ineligible for being financed from the Programme and should be recovered.	Status: Not implemented By the insight into AFR 1 for 2024 item cost recognized as well as in the accounting system of CFCU, we determined that this finding was not properly treated. The amount of ineligible cost is included in cost recognized. Finding is open.

Table 10

Within the audit of operations conducted in 2021, four findings and recommendations were issued and implemented.

Within the audit of operations conducted in 2022/2023, three findings and recommendations were issued.

One system finding and recommendation was issued, which was partially implemented by the end of December 2024.

Two transaction findings and recommendation were issued. During the Audit of accounts, we noticed that one finding was partially implemented, one was not implemented at all. Having in mind that findings with financial impact can be closed after the submission of the Final Declaration of expenditure, findings remained open.

In 2024 there were no Audit of operations (see chapter 5 of this Report).

Period	No of identified findings and given recommendation	No of implemented recommendation	No of partially implemented recommendation	No of non-implemented recommendation
2021	4	4	0	0
2022	3	0	2	1

Table 11

Table 12

Part III: Follow up of findings and recommendations issued within Audit of SAP IPA Information System for IPA II Programmes No: 3011-1-06-555/2 from 22/12/2023

In total AA's conclusion of status is that 8 out 12 findings are closed, while 4 findings remain open. Summary AA's conclusion of all findings from Final Report on Audit of SAP IPA Information System for IPA II Programmes no: 3011-1-06-555/2 dated on 22/12/2023 is given in table below:

FINDING NO.	FINDING 'TITLE'	PRIORITY OF FINDING (MINOR, INTERMEDIATE, MAJOR)	STATUS in Final Report	STATUS in August 2024
1.		Major	Closed	n/a
2.		Major	Open	Open
3.		Major	Closed	n/a
4.		Major	Closed	n/a
5.		Major	Open	Open
6.		Intermediate	Open	Closed
7.		Minor	Closed	n/a
8.		Intermediate	Closed	n/a
9.		Intermediate	Closed	n/a
10.		Minor	Open	Open
11.		Minor	Closed	n/a
12.		Intermediate	Open	Open

Table 13

Part IV: Follow-up of the findings and recommendations issued by external audits, i.e. Moore Stephens' Audit on information security (ICT)

No	Finding	Recommendation	AA's proposal of status at the end of December 2023	Management response December 2024	AA's proposal of status at the end of December 2024
H1	Minimum levels of acceptable information security not formally identified. Priority level: High Body/-ies concerned by the finding: All There was an inadequate definition and documentation of information security policies and procedures for IPA bodies. The IPA IT set of policies has not been based on a defined IPA IS strategy or assessment of IPA information security threats and was based on a general set of policies that did not reflect the actual roles and procedures being performed in the IPA IT environment. In Annex 1-Operational Procedures, forms such as SP1.00 and OC1.10 were referenced but there was no evidence that these forms were actually used by IPA bodies. Policies on end-user-oriented topics such	We recommend that a set of information security policies are defined, documented and published that address requirements created from a clear and concise information security strategy and the current and projected information security threat environment. They should contain statements concerning the definition of information security, objectives and principles to guide all activities relating to information security and the assignment of roles and responsibilities and which, at a lower level, should be supported by topic-specific policies, including end-user-oriented topics such as the acceptable use of assets and clear desk/clear screen. These policies should be documented, approved and communicated to employees and relevant external parties in a form that is relevant, accessible and understandable to the intended reader. Each policy should be reviewed at planned intervals or when	Status: Not implemented According to auditees' response, it is evident that the recommendation has not been implemented in the previous period. AA's proposal of new deadline for implementation III Q 2024	MS reply December 2023: Within TA project Support to the Directorate of Management Structure, an IT expert, Mr Goran Chamurovski has been engaged in relation to resolving Information Security Policy issues. Within timeframe of 9 months (period of implementation of TA project), policies on end-user-oriented topics such as Acceptable Use of Internet and Acceptable Use of Email, Clear Desk and Clear Screen will be developed, and dissemination will be conducted through organized trainings. Additionally, Action Plan ISO 27002 is outdated and it will be analysed by IT expert and revised version of AP, covering area of relevant IS policies, will be prepared in cooperation with the Ministry of Public Administration during 1st Q 2024. In this regard, TA expert prepared information of envisaged activities in terms of deliverables under the contract for Support to Management Structure. These deliverables are: • Action plan on ISO Standard 27002 set and communicated throughout the IPA structures; • Information security policy; • Timeframe of the treatment of	Status: Not implemented The AA's auditors noted that the Final Draft of the IS Policy as well as the Final version of the Proposal of the Action Plan had been developed. Also, we noted subsequently obtained information that the Government of Montenegro, adopted the Action Plan for the implementation of the information security on the basis of ISO 27002 standard at the level of IPA framework for the period 2025-2027 (hereinafter: AP). <i>Since IS policy is not officially approved, we consider finding open and we will monitor the implementation of recommendation in accordance to activities and deadlines defined in AP.</i>

Annual Audit Activity Report

	as Acceptable Use of Internet and Acceptable Use of Email were missing, as were Clear Desk and Clear Screen policies.	significant changes occur to ensure their continuing suitability, accuracy and effectiveness. Each policy should have an owner who has approved management responsibility for the development, review and evaluation of the policies.		the referent measures respecting EC audit findings; • Holding awareness sessions on the Information Security Policy. Detailed information are attached in the presentation below:  ActionPlan_Presentation.pdf MS reply December 2024: Significant progress is made compared to the previous reporting period. Bearing in mind that the Action Plan ISO 27002 was outdated, expert engaged through TA Project Support to the Management Structure has organized trainings related to preparation and structure of the new Action Plan during the February 2024. With above mentioned, IT expert, in cooperation with Management Structure, has prepared Draft Action plan ISO 27001-2 (2024-2026) in April 2024 and Management Structure sent Draft AP to the IPA bodies, for giving comments. In that regard, Ministry of Public Administration has given notice of consent on proposed Action plan 27002 for the period of implementation 2025-2027 and it was submitted to the Government for consideration and adoption, after which all IPA bodies will start managing according to defined models and measures from the AP. Government Adoption of this Action plan is expected to be finalised on the first next session of Government. Also, in regard to the recommendation	
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			given, Draft IS Policy was also delivered by expert engaged through project Support to DMS and it was communicated with IPA bodies on the sessions held by the end of October and November 2024. During these sessions, IPA Bodies were made familiar with the requirements of the IS policy. Also, sessions were opportunity for IPA bodies in regard to how they should follow and implement IS Policy developed at the time when the Action Plan is officially endorsed by the Government. Final version of the Proposal of the Action Plan, which is communicated with Ministry of Public Administration and submitted to the Government for adoption, Final Draft of IS policy approved and communicated to employees which will be signed after adoption of AP, as well as Attendance lists from missions occurred in previous period are presented below:  AP ISO 27002_2022 ENG.docx  AP ISO 27002_2022 MNE.docx  Policy - 1.PO.01 - AttendanceSheet_O Information Security  Information Security ctober_2024.pdf	
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Annual Audit Activity Report

				 Attendance list_ISO policies_24092024.p  Attendance List_ISO policies_25092024.p  Attendance Sheet - Meetings in regard t  Attendance Sheet - Meetings in regard t	
H2	No Information Security awareness education or training. Priority level: High Body/-ies concerned by the finding: all There is no information security awareness education or training and consequently, a low awareness of information security threats.	We recommend that all IPA staff and where relevant, IPA contractors, receive appropriate IS awareness education and training and regular updates. An IS awareness programme should make staff aware of their responsibilities for security and the means by which those responsibilities are fulfilled. The IS awareness programme should be established in line with the IS policies and relevant procedures. The programme should also cover general aspects such as: a) management's commitment to IS throughout the organisation; b) the need to become familiar with and comply with applicable	Status: Partially implemented Based on auditees' response and obtained documentation, we consider that IPA structure is aware of importance of education and trainings related to raising information security knowledge and awareness. Trainings were organized. Having in mind that within TA project Support to the Directorate of Management	MS reply December 2023: Within TA project Support to the Directorate of Management Structure two meetings with representatives of relevant IPA institutions were organised related to ISP education and raising awareness on the Information Security policy. Attendance sheets are attached below:  Attendance_MPA.pdf  Attendance_CPA_ME_A_CFCU_TL.pdf Additionally, within abovementioned TA project, trainings are planned to be conducted in regards to ISP education and raising awareness on the Information Security policy for the IPA staff in the upcoming period. We are also emphasizing that IPA Training Module has been developed for	Status: Partially implemented Based on auditees' response and the obtained documentation, we consider that IPA structure is aware of the importance of education and trainings related to raising information security knowledge and awareness. Having in mind that significant numbers of session and trainings were organized, our proposal is that priority level of finding should be decreased. Action plan contains measures and activities in regards to ISP education and raising awareness on the Information Security policy for the IPA staff in the upcoming period. Therefore, we will monitor implementation of this recommendation in line with adopted AP.

Annual Audit Activity Report

		rules and obligations, as defined in policies, standards, laws, regulations, contracts and agreements; c) basic IS procedures (such as IS incident reporting) and baseline controls (such as password security, malware controls and clear desks).	Structure, trainings are planned to be conducted in regards to ISP education and raising awareness on the Information Security policy for the IPA staff in the upcoming period, we will monitor implementation of this recommendation. AA's proposal of new deadline for implementation III Q 2024	2022 and 2023 in cooperation with Human Resources Management Authority, and one of the areas that IPA module covered was IT security policy. In this regard training on „Information Security and Management under standard ISO 27002 on the level of IPA bodies was organized. Relevant attendance sheet is attached below:  Attendance sheet_ISO 27002.pdf MS reply: December 2024 During the five sessions organized in 2024, in a cooperation with TA expert, the relevant IPA bodies have the opportunity to get familiar with ISP education and raising awareness. Also, the IPA bodies were included in all steps and phases of preparation of AP and IS policy. On these sessions, IPA bodies acknowledge of services related to information security policy to ensure the protection and integrity of government information system as well as best practices and standards: Providing recommendations on industry-standard security practices (e.g., ISO/IEC 27001-2, NIST Cybersecurity Framework etc). When it comes to Final version of the IS policy which is attached below, trainings related to using of IS policy when it developed were also delivered by the expert engaged on his mission held 3-6th December 2024. Relevant documents are enclosed below:	AA's proposal of new priority level Intermediate AA's proposal of new deadline for implementation In accordance with deadlines given in AP
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Annual Audit Activity Report

				 IS Policy - Training material.pdf  Attendance list_Training IS polic MPA reply December 2023: The Human Resource Management Administration has two training programs - Information Security and Data Protection. In addition, the Ministry of Public Administration has envisaged the strengthening of the Government CIRT with the new Rulebook on Systematization, in the part related to the formation of a special unit in whose competence will be to raise awareness of information and cyber security, as well as to provide specific guidelines for safer use of the Internet and services in state administration bodies. Information Security awareness raising is carried out through educational programs in the field of security that are established within the Digital Academy. Also, it is planned to establish a Cyber Academy, which will provide education exclusively in the field of information and cyber security. At the same time, although it is an international organization that will be established in 2024, the Centre for Cyber Capacity Development of the Western Balkans (WB3C) also permanently educates officials from various structures of state administration bodies from Montenegro on all relevant topics related to cyber hygiene, cybersecurity, cybercrime and cyberdiplomacy. MPA reply December 2024:	
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Annual Audit Activity Report

				The Human Resource Management Administration has two training programs - Information Security and Data Protection. In addition, the Ministry of Public Administration has envisaged the strengthening of the Government CIRT with the new Rulebook on Systematization, in the part related to the formation of a special unit in whose competence will be to raise awareness of information and cyber security, as well as to provide specific guidelines for safer use of the Internet and services in state administration bodies. In parallel with the development of the Digital Academy, we also developed the Cyber Academy in order to integrate them into one platform called: eAcademy at the beginning of 2025. Cyber Academy is crucial for all civil servants and employees, as well as citizens, because it enables raising awareness of cyber hygiene and provides the necessary tools for recognizing and preventing cyber threats. Given the increasingly frequent cyber-attacks and the complexity of the digital environment, Cyber Academy aims to empower users to protect their digital resources and data. The eAcademy will be a central point for acquiring key knowledge and skills that are necessary to face the challenges of the modern digital age. At the same time, although it is an international organization that will be established in 2025, the Center for Cyber Capacity Development of the Western Balkans (WB3C) also permanently educates officials from various structures of state administration bodies and critical	
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Annual Audit Activity Report

				infrastructure of Montenegro on all relevant topics related to cybersecurity, cybercrime and cyberdiplomacy.	
H3	No information security policy for Third Party Service Suppliers. Priority level: High Body/-ies concerned by the finding: All There is no information security policy that defines the risks associated with the use of Third Party Suppliers, their responsibilities, requirements for Third Party Service Providers to access IPA body systems, and service agreement security provisions such as data confidentiality.	We recommend that a third-party service provider policy is developed that identifies and mandates security controls to specifically address third party supplier access to IPA body systems and to ensure protection of IPA body assets.	Status: Not implemented According to auditees' response, the recommendation has not been implemented in the previous period. Thus, we consider this finding still open. AA's proposal of new deadline for implementation III Q 2024	MS reply December 2023: Within TA project Support to the Directorate of Management Structure, third party service provider policy will be developed with the aim to identify and mandate security controls to specifically address third party supplier access to IPA body systems and to ensure protection of IPA body. MS reply December 2024: Information security policy for Third Party Service Supplier is presented in Final Draft IS policy which will be endorsed after adoption of Action Plan – 4.5 Security of Third-Party Services.	Status: Not implemented See conclusion H1.
H6	No Business Continuity Plan (BCP) or Disaster Recovery Plan (DRP). Priority level: High Body/-ies concerned by the finding: All Whilst there were policies that required Business Continuity and/or a Disaster Recovery Plans, we found no evidence that actual plans had been documented and published. This was also a finding in a previous audit. A BCP is an essential part of an organisation's response planning. It sets	We recommend that Business Continuity and Disaster Recovery Plans are defined, documented and published, and that they are reviewed and tested at least annually. In order to develop these plans, a formal Business Impact Analysis will need to be conducted to determine the critical operations and systems and to agree appropriate recovery times which will meet the needs of each IPA entity.	Status: Not implemented According to auditees' response, the recommendation has not been implemented in the previous period. We will monitor the implementation. AA's proposal of new deadline for implementation III Q 2024	MS reply December 2023: Within TA project Support to the Directorate of Management Structure Policy on Classification Information Assets will be created and it will represent baseline for creating policy for establishment of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP). MS reply December 2024: With cooperation with TA expert and prepared AP, Policy on Classification Information Assets is presented within the Action Plan and it will be baseline for creating policy for establishment of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) for IPA bodies in cooperation with MPA. All steps	Status: Not implemented There is discrepancy between answers of MS and MPA reply. Having in mind that we did not receive relevant and concrete evidence by MPA which proves that BCP and DRP are adopted, we consider the finding open. We will monitor the implementation of recommendation. AA's proposal of new deadline for implementation: In accordance with deadlines given in AP

	out how the entity will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time afterwards. The DRP describes the plans for recovering the IT systems.			for establishment of BCP and DRP are presented in Baseline 13 -Recovery and Back up, point 13.1 Business Continuity Management Policy and 13.2 Backup policy implemented within the Action plan. MPA reply December 2023: The Disaster Recovery Plan (DRP) is designed to be classified as confidential. However, it was never officially adopted. Since this version was aligned with an earlier version of the standard, it is necessary to revise the document and align it with the latest version of the standard. MPA reply December 2024: Adopted Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) are designed to be classified as confidential.	
H7	There is no Removable Media Policy. Priority level: High Body/-ies concerned by the finding: All Removable media is defined as devices or media that is readable and/or writable by the end user and are able to be moved from computer to computer without modification to the computer. Removable media is a well-known source of malware infections and has been directly tied to the loss of sensitive information in many organisations.	We recommend that a Removable Media policy is created and included in the set of IPA body Information Security Policies to help protect against the introduction of viruses and the loss of sensitive data.	Status: Partially implemented According to auditees' response, use of USB is prohibited at the network level. Since this issue is not prescribed in procedure, we consider the recommendation partially implemented. We will monitor the implementation. AA's proposal of new deadline for implementation	MPA reply December 2023: After the cyber-attack occurred on the Government information infrastructure, use of USB is prohibited at the network level, but we do not know is that adequately prescribed in a procedure. Even in the Regulation on Information Security Measures does not explicitly state that USB should not be used, but we have applied this control in relation to best practice. MPA reply December 2024: After the cyber-attack occurred on the Government information infrastructure, use of USB is prohibited at the network level, but we do not know is that adequately prescribed in a procedure. Even in the Regulation on Information Security Measures does not explicitly state that USB should not be used, but we have applied this control in relation to	Status: Partially implemented According to auditees' response, use of USB is prohibited at the network level. This issue is prescribed in Final Draft of IS Policy (point 4.6). Since IS policy is not officially approved we consider finding open and we will monitor the implementation of recommendation. AA's proposal of new deadline for implementation In accordance with deadlines given in AP

			III Q 2024	best practice. The above was implemented in accordance with the Regulation on Information Security Measures - Article 13 and the application of best practices. https://wapi.gov.me/download-preview/ce38af49-f9ff-4bdd-9c34-7d5bac899e9c?version=1.0 Article 13 (2): a mechanism to prevent unauthorised transfer and entry of data through the use of portable information media, communication ports and data printing ports - Anti-virus protection module that blocks data entry from external media.	
H9	Third party service provider use of remote access is not documented. Priority level: High Body/-ies concerned by the finding: NAOSO/NF/CFCU and CPA (former PWA/DPW) Third party service providers use remote access to maintain and support the MIST network and Ministry of Finance and DPW domains (sub networks) and servers but this is not documented.	We recommend that IPA Bodies and Ministries allowing remote access activities issue a policy that defines the conditions and restrictions for such access.	Status: Not implemented We did not receive relevant and concrete evidence which proves that recommendation was adequately treated. Policies and procedures that define the conditions and restrictions for access by third party service providers have not been provided. Thus, we consider this finding still open. AA's proposal of	MPA reply December 2023: There is a form of request to open a VPN account. VPN accounts are opened on request. Restrictions on officials are that it can only be accessed with Windows 10 and when users connect to a VPN, they can't use something else. The restriction for vendors is that they can access the content they administer. Each server is in a separate zone and a zone is defined for each user. MPA reply December 2024: There is a form of request to open a VPN account. VPN accounts are opened on request. Restrictions on officials are that it can only be accessed with Windows 10 and when users connect to a VPN, they can't use something else. The restriction for vendors is that they can access the content they administer. Each server is in a separate zone and a zone is defined for	Status: Not implemented This issue is prescribed in the Final Draft of IS Policy (3.2Access control-11. Remote Access; 3.4Acceptable use - 4.2 Remote Working). Since IS policy is not officially approved, we consider the finding open and we will monitor the implementation of recommendation. AA's proposal of new deadline for implementation In accordance with deadlines given in AP

			new deadline for implementation III Q 2024	each user. The above was implemented in accordance with the Regulation on Information Security Measures and the application of best practices. https://wapi.gov.me/download-preview/ce38af49-f9ff-4bdd-9c34-7d5bac899e9c?version=1.0 Article 13 (1) A secure log-on system for operation with the ability to log access to the server, so that access to the server can be controlled and restricted – VPN and AD	
M1	No Information Classification Priority level: Medium Body/-ies concerned by the finding: All Information classification provides staff who deal with sensitive data with a concise indication of how to handle and protect it. Grouping information with similar protection needs and specifying information security procedures that apply to all the information in each created group facilitates this and reduces the need for case-by-case risk assessment and custom design of controls. We noted that there is no classification of information in terms of its importance to the IPA bodies.	We recommend that information is classified in terms of legal requirements, value, critically and sensitivity to unauthorised disclosure or modification. We also recommend that the NAO should draft an information classification policy for IPA bodies. This will enable appropriate consistency of information classification to be applied to all IPA bodies. The classification scheme should include conventions for classification. The level of protection should be assessed by analysing confidentiality, integrity and availability and any other requirements for the information considered. Each level should be given a name (e.g. 'Confidential', 'Sensitive', 'Internal', 'Public', etc.) that is relevant in the context of the classification scheme	Status: Not implemented According to auditee's response, no specific classification of the respective IPA information has been prescribed under referent IPA procedures. Thus, this finding remains open. AA's proposal of new deadline for implementation III Q 2024	MS reply December 2023: Within TA project Support to the Directorate of Management Structure, Policy for Information Classification is developed and it will be monitored by respective IPA institutions. MS reply December 2024: This classification is presented in Final Draft IS policy which will be endorsed after adoption of Action Plan– PART 3.1 Asset management – 4. Policy Statements - 4.2 Asset Inventory and Classification (A5.9). “- All information assets, including hardware, software, data, and service, shall be inventoried and classified according to their criticality and sensitivity. - The inventory shall include asset identification, ownership, classification, location, and compliance requirements related with the asset. - Assets shall be classified based on their criticality to business processes, impact on confidentiality, integrity, and availability, and regulatory/legal	Status: Not implemented Bearing in mind that the Final Draft IS policy is not endorsed, this finding remains open. AA's proposal of new deadline for implementation In accordance with deadlines given in AP

Annual Audit Activity Report

				requirements.”	
M2	Inadequate Asset Management. Priority level: Medium Body/-ies concerned by the finding: All An asset is anything that has value to the organisation and which therefore requires protection. Asset identification should be performed at a suitable level of detail that provides sufficient information for the risk assessment. At the time of our audit, we noted that there is an inadequate inventory of assets in the IPA bodies. While IPA body users do sign a paper form certifying ownership of a desktop that is retained, these signed paper forms do not give an easily available and understandable inventory of an IPA body assets. The IPA IT Policy states that one of the duties of an IT Coordinator is 'Keeps a detailed record of all IPA Body's equipment, its age and condition' but we found that this was not the case in practice.	We recommend that an electronic inventory of assets be created for each IPA body that includes both equipment, information assets and information processing facilities so that the appropriate protection can be identified and provided to each of these assets. Owners should be assigned to the assets and the acceptable use of information and equipment be defined.	Status: Partially implemented Recommendation is not fully implemented, therefore finding remains open. AA's proposal of new deadline for implementation III Q 2024	MS reply December 2023: An inadequate inventory of assets in IPA bodies will be treated in revised Action Plan ISO 27002 prepared with the support of IT expert engaged within TA project Support to the Directorate of Management Structure and the MPA. Additionally, Risk posture monitoring and mitigation shall be outsourced to the MPA. MS reply December 2024: Steps and goals for an inadequate inventory of assets in IPA bodies are presented in revised Action Plan ISO 27002 for period 2025-2027 prepared with the support of IT expert engaged within TA project. Additionally, Risk posture monitoring and mitigation shall be outsourced to the MPA. Steps for treating this area are presented in Baseline 7 of the Action Plan – No 7.1.	Status: Partially implemented AA's auditors note that this issue is treated in AP. We will monitor the implementation of recommendation in accordance to deadlines given in AP.

Annual Audit Activity Report

M3	Backup and Restore policies and procedures are inadequately defined. Priority level: Medium Body/-ies concerned by the finding: All There are defined and documented backup and restore policies and procedures but they are very general and do not reflect which backups are actually being performed. For example, the IPA Project and Accounting System is on a server in the Ministry of Finance server room. A full backup to disk is performed daily by a third-party service provider to another server in the same server room and only the most recent backup is retained but this does not appear anywhere in the backup and restore policies and procedures. We learned that the IPA Portal is not backed up at all. The Audit Authority is primarily responsible for ensuring that audit data on user systems is not lost but this is not clear from its backup policy and procedures.	We recommend that backup and restore policies are defined, documented and published to reflect current procedures being followed in IPA bodies. They should include application, user desktop and shared drive backups.	Status: Not implemented Based on auditees' response, IPA procedures have not been upgraded yet. Finding remain open and we will monitor the implementation of recommendation. AA's proposal of new deadline for implementation III Q 2024	MS reply December 2023: Within TA project Support to the Directorate of Management Structure one of the activities will be defining adequate Backup and Restore policies and procedures. Location of the backup and restore equipment will be decided in the future period between MPA and IPA institutions. MS reply December 2024: Location of the backup and restore equipment will be decided in the future period between MPA and IPA institutions. Backup responsibilities of small IPA Bodies are related with the procedure that make them obliged to save all documents at appropriate storage defined by the Ministries. When IS policy is endorsed, after adoption of the AP and in accordance with the dates proposed by the AP, new version of the relevant chapter of the Manual of Procedures should be prepared and adopted on the basis of the measures from the AP and ISO 27002. This is prescribed by the AREA: Establishment of The Framework for The Monitoring and Implementation of The ISMS and Action plan.	Status: Not implemented Based on auditees' response it is evident that recommendation is not implemented. AA's auditors note that this issue is treated in AP. We will monitor the implementation of recommendation.
M5	There are no documented policies or procedures for Vulnerability Scanning. Priority level: Medium	We recommend that a Vulnerability Scanning Policy is defined, documented, published and included in the IPA Information Security set of	Status: Not implemented According to auditees' response, the	MPA reply December 2023: In practice, MPA is conducting a Vulnerability Scanning. However, MPA do not have a Vulnerability Scanning Policy defined. The Vulnerability	Status: Not implemented According to auditees' response, the recommendation is not implemented. We will monitor the implementation of

Body/-ies concerned by the finding: All Vulnerability scanning is an important and necessary component of information security policies and procedures in which devices connected to the network are probed in an attempt to identify security-related issues. However, there is no defined and documented process for vulnerability scanning in IPA bodies.	policies. This policy should include a list of devices subject to vulnerability scanning and which body will perform the vulnerability scans	recommendation is not implemented. We will monitor the implementation of recommendation. AA's proposal of new deadline for implementation III Q 2024	Scanning Policy needs to be developed in the future period. MPA reply December 2024: In practice, MPA is conducting a Vulnerability Scanning. According to the Reform Agenda, the key activity for 2025 is adoption of the Standard Operating Procedure for Vulnerability Management	recommendation. We will monitor the implementation of recommendation in accordance with deadlines given in AP.
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Table 14

In total AA's proposal of status is that 7 out 17 findings should be closed, while 10 findings remain open (for 3 out 10 open findings recommendations had been partially implemented).

Summary AA's proposal of status of all findings from DG NEAR// Moore Stephens' Audit on information security (ICT) is given in table below:

No	Finding	AA's proposal of status in February 2022	AA's proposal of status in December 2023	AA's proposal of status in December 2024
1.	H1 Minimum levels of acceptable information security not formally identified. Priority level: High Body/-ies concerned by the finding: All	Status: Not implemented	Status: Not implemented New deadline: III Q 2024	Status: Not implemented
2.	H2 No Information Security awareness education or training. Priority level: High Body/-ies concerned by the finding: All	Status: Partially implemented	Status: Partially implemented New deadline: III Q 2024	Status: Partially implemented New priority level: Medium
3.	H3 No information security policy for Third Party Service Suppliers. Priority level: High Body/-ies concerned by the finding: All	Status: Not implemented	Status: Not implemented New deadline: III Q 2024	Status: Not implemented
4.	H4 Inadequate documentation of IT Change Management. Priority level: High Body/-ies concerned by the finding: All	Status: Not implemented	Status: Implemented	N/A

Annual Audit Activity Report

5.	H5	Desktops with unsupported operating systems. Priority level: High Body/-ies concerned by the finding: CFCU and CPA (former Public Works Administration/Directorate for Public Works)	Status: Implemented	N/A	N/A
6.	H6	No Business Continuity Plan (BCP) or Disaster Recovery Plan (DRP). Priority level: High Body/-ies concerned by the finding: All	Status: implemented	Not implemented New deadline: III Q 2024	Status: Not implemented
7.	H7	There is no Removable Media Policy. Priority level: High Body/-ies concerned by the finding: All	Status: implemented	Not implemented New deadline: III Q 2024	Status: Partially implemented
8.	H8	There are no policies and procedures on the use of offices outside government buildings. Priority level: High Body/-ies concerned by the finding: Ministry of Labour and Social Welfare (former Ministry of Economic Development/Ministry of Labour and Social Welfare)	Status: implemented	Not implemented	N/A
9.	H9	Third party service provider use of remote access is not documented. Priority level: High Body/-ies concerned by the finding: NAOSO/NF/CFCU and CPA (former PWA/DPW)	Status: implemented	Not implemented New deadline: III Q 2024	Status: Not implemented
10.	M1	No Information Classification Priority level: Medium Body/-ies concerned by the finding: All	Status: implemented	Not implemented New deadline: III Q 2024	Status: Not implemented
11.	M2	Inadequate Asset Management. Priority level: Medium Body/-ies concerned by the finding: All	Status: implemented	Partially implemented New deadline: III Q 2024	Status: Partially implemented
12.	M3	Backup and Restore policies and procedures are inadequately defined. Priority level: Medium Body/-ies concerned by the finding: All	Status: implemented	Not implemented New deadline: III Q 2024	Status: Not implemented
13.	M4	There is no current service agreement with a third-party service provider. Priority level: Medium Body/-ies concerned by the finding: AA and Capital Project Administration (former Public Works Administration /Directorate for Public Works)	Status: implemented	Not implemented	N/A
14.	M5	There are no documented policies or procedures for Vulnerability Scanning. Priority level: Medium	Status: implemented	Not implemented New deadline: III Q 2024	Status: Not implemented

		Body/-ies concerned by the finding: All			
15.	M6	Physical Security is inadequate. Priority level: Medium Body/-ies concerned b	Status: Implemented	N/A	N/A
16.	M7	Wireless Network is not separate from the core government network. Priority level: Medium Body/-ies concerned by the finding: Ministry of tourism, ecology, sustainable development and development of the north (former Ministry of Ecology, Spatial Planning and Urbanism/Ministry of Sustainable Development and Tourism)	Status: Partially implemented	Status: Implemented	N/A
17.	M8	No review of Antivirus logs. Priority level: Medium Body/-ies concerned by the finding: All	Status: Not implemented	Status: Implemented	N/A

Table 15

➤ **Part V: Follow up of findings and recommendation issued by BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II)**

At the moment when BDO's Report (Ad Hoc Audit on Internal Audit Capacities in the context of Internal Control Framework under the Instrument for Pre-Accession II (IPA II) in Montenegro) was issued (February 2019), Internal Audit Units (IAUs) in every Ministry had obligation to conduct internal audit of EU funds under the Instrument for Pre-Accession (IPA II).

The Decree for establishment of internal audit in the public sector of the 10th of September 2021 prescribes that **centralised Internal Audit Unit responsible for audit of EU funds had to be established within Ministry of Finance**. Having this in mind, status of recommendations given in this follow up is given on the basis of the fact that centralised Internal Audit Unit within Ministry of Finance now has a role of performing audit of EU funds under IPA II in public sector.

During a thematic system audit of the efficient and effective functioning of internal audit of EU Funds in Ministry of Finance (we performed follow-up of recommendations related to open findings given in Ad Hoc Audit on Internal Audit Capacities in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II) (February, 2019).

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

Part V: Follow up of findings and recommendation issued by BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II)

No	Finding	Recommendation	AA's proposal of status, priority level and new deadline from last follow-up/ October 2023	Management response May 2024	AA's proposal of status May 2024
IAC1	Demonstrating independence and objectivity. Priority level: High Body/-ies concerned by the finding: Ministries and the CHU Compliance with the independence and objectivity requirements of Standard 1100 is conventionally achieved through an Audit Committee, which reviews, challenges and approves the internal audit remit and outputs, and which ensures that internal audit is free from the influence of those being audited and that internal auditors are fully objective in the execution of their work. There is no specific entity within any of the Ministries or Departments performing this role, and auditors report directly to the Minister or Commissioner, who is also their line manager for performance appraisal purposes. Regular access to senior management varied between Ministries: generally, internal auditors are not regarded as being members of senior management and do not attend senior management meetings. All audit staff whom we interviewed were adamant that they had never felt any undue influence or	Ensure that the internal audit activity can report its plans, activities and outcomes, and which will help demonstrate that the auditors are fully independent from the Minister / Commissioner, and from the Ministry / Commissariat. Invite the head of audit, or, in the absence of a head of audit, an appropriately senior and qualified internal auditor, to attend periodic senior management meetings and present key audit documents such as the annual audit plan, the mid-year report and the annual report.	Status: Implemented Based on auditees' response and information provided in Consolidated report on governance and internal controls in public sector for 2022, it is evident that progress has been made regarding involvement of IAUs at periodic senior management meetings. Percentage of the heads of the IAUs that attend senior management meetings increased in regard to previous period. Taking into consideration the above and having in mind facts given in point 1. of this Report, we consider this finding closed. However, this issue will be in scope of audit of AA in the upcoming period with regards to Centralised IAU responsible for audit of EU funds.	N/A	Status: Implemented During the audit engagement: „Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance)”, we determined that Head of IAD is in communication with NAO related to key audit documents. However, we noticed that there was no adequate audit trail that NAO considered/adopted Annual plan for 2024. <u>Our proposal is that this finding should be closed, but this issue will be further monitored through follow up related to our audit engagement.</u> Finding No 3: Strategic and Annual Plans (Section of Report 3.2.3).

Annual Audit Activity Report

	pressure to amend the contents of their reports, and stated they had sufficient access to the Minister or Commissioner for the purposes of their work. We were also made aware of examples where internal auditors report to the NAO and CHU, which provides an alternative mechanism for mitigating the risk of undue influence. Nevertheless, these reporting arrangements could potentially compromise auditors' independence in planning and performing their work.				
IAC2	Developing and ensuring proficiency. Priority level: High Body/-ies concerned by the finding: Ministries and the CHU Although there has been a gradual shift towards risk-based auditing, the focus is still on compliance and operational risks, rather than more strategic risks. Fraud and governance risks are not routinely identified (neither auditors nor clients recognised this as a problem in the survey (Annex G, questions 13.10 and 29.23 and Annex H, question 27.22 respectively) and no use is made of technology-based audit (identified as a weakness by auditors (Annex G, questions 12.9 and 30.34) and non-IPA clients (Annex H, question 26.21)). Auditors do not currently have the understanding or training to address these	Provide practical support and advice in the manual and via workshops, in order to enable auditors to make the most of the new, COSO-based planning tool, improving the emphasis on more strategic, governance and fraud risks.	Status: Implemented Based on auditees' response and evidences enclosed, we determined that significant number of internal auditors in public sector attended trainings and workshops with different topics. Some of trainings were related to strategic and annual internal audit planning and planning phase of each engagement. CHU undertook activities to enable internal auditors to improve their knowledge through Programme of continuous education and provide regular support to internal auditor in their work. We concentrated our attention on attendance of auditor of centralised IAU for EU funds to mentioned workshops and trainings and concluded that in previous period was satisfactory. Having in mind, that previous status	N/A	Status: Implemented During the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we noticed that auditors from this IAD continued to attend trainings. <i>Our proposal is that this finding should be <u>closed</u>.</i>

Annual Audit Activity Report

	weaknesses, although three IT auditors are being trained. Audit clients in the surveys did comment on auditors' dedication, enthusiasm and commitment to learning and improving their knowledge (Annex H, question 37.31).		was implemented preliminary as well as facts given in point 1. of this Report we consider this recommendation implemented and finding closed. However, this issue will be in scope of audit of AA in the upcoming period with regards to Centralised IAU responsible for audit of EU funds.		
IAC3	Quality assurance and improvement Priority level: High Body/-ies concerned by the finding: Ministries and the CHU Other than supervision of audit assignments, there is no quality assurance and improvement programme in place. Satisfaction questionnaires have been developed but have yet to be used.	Develop a quality assurance and improvement programme that covers both internal and external assessments of the quality of the IACs' work. It must include arrangements for full reporting of the results and monitoring of subsequent action plans.	Status: Implemented According to the auditees' response and information provided in Consolidated report on governance and internal controls in public sector for 2022, we found that improvements have been made in this field and respective percentage of IAUs prepared Quality Assurance and Improvement Program. During 2022 workshops related to Quality Assurance and Improvement Program of internal audit had been conducted. Taking into account that previous status was implemented preliminary and facts given in point 1. of this Report, we consider this recommendation implemented and finding closed. However, Quality Assurance and Improvement Program and use of checklists for self assessment in practise will be in the scope of audit of AA in upcoming period regarding this centralised IAU for EU Funds.	N/A	Status: Implemented During the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we noticed that Quality Assurance and Improvement Program was prepared by the Head of IAD for EU Funds. <i>Our proposal is that this finding should be <u>closed</u>.</i>

Annual Audit Activity Report

IAC4	Strategic risk-based planning Priority level: High Body/-ies concerned by the finding: Ministries and the CHU Strategic (three year) and annual audit plans are developed by identifying the audit universe and then risk appraising it across a number of dimensions, in a way that is common to many internal audit functions. However, the identification of the audit universe is system/process-driven and a large number of operational activities are included. It does not rather start by considering Ministries' strategies, objectives and risks, or trends and emerging issues. This would result in fewer, higher-level but strategically important areas being included in the audit universe. Such a shift in focus would probably result in a more fluid audit plan and planning over a three-year period might no longer be appropriate.	Shift the focus of strategic (annual) audit planning to consider each Ministry's key business objectives and risks for that year.	Status: Implemented According to the auditees' response and obtained documentation, we consider that internal auditors had numerous trainings with focus on strategic and annual planning in the previous period within the Programme of continuous education of internal auditors. Enclosed Annual Audit Plan of centralised IAU for EU Funds is based on key objectives and risks of IPA II structure in Montenegro. We consider that recommendation is implemented and finding is closed.	N/A	N/A Status: Implemented
IAC5	Recruitment and retention. Priority level: High Body/-ies concerned by the finding: Ministries There is an acknowledged problem with recruiting and retaining audit staff and many of the audit teams reviewed have carried vacancies for	Highlight to senior management the limitations placed on audit plans because of the lack of resources. Consider alternative employment models, for example, short-term secondments as part of broader management	Status: Partially Implemented New deadline: II Q 2024 On the basis of auditees' response and obtained documentation we can conclude that Centralised Internal Audit Unit responsible for audit of EU funds is functioning efficiently. Unit has three internal auditors, including Head of the Unit, and all of	In March 2024, senior internal auditor within Centralised Internal Audit Unit responsible for audit of EU funds finished practical part of exam for certified internal auditor and acquired certificate. (Certificate attached) Besides the Head of IAU	Status: Implemented Please, see comment in bold/italic at the bottom of this column. During the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we determined that

Annual Audit Activity Report

	some time. Audit plans are developed around available resources and the limitations placed on potential coverage by vacancies are not always made clear to senior management. The previous experience required of auditors limits recruitment to those who have either an economics or a legal background, greatly reducing both the pool of potential candidates and the skills, knowledge and experience that are brought into internal audit. Some auditors have poor or no English, making them ineffective in carrying out IPA audits. The auditor survey (Annex G, question 36.29) reiterated the concerns expressed in interviews regarding resources.	training. Broaden the educational requirements/skill sets for auditors, focussing on their ability to audit rather than on qualifications. Appointing auditors with project management skills would be a useful resource for IPA auditing. Increase English language skills in audit teams so that those working on IPA issues are able to do so effectively.	them are fluent in English and specialized on IPA regulation and procedures. Additionally, internal auditors are attending trainings within programme of continuous education of internal auditors. However, certification of senior internal auditor is still on going so we will we consider that the recommendation is partially implemented. We will monitor the full implementation of this recommendation in upcoming period. Also, this issue will be in scope of the audit of AA in upcoming period regarding centralised IAU for EU Funds.	who is very experienced internal auditor, there are 2 certified internal auditors who have skills and previous experience in contracting and implementing IPA projects. All of them are fluent in English.	-Envisaged number of work posts within IAD for EU funds (except IPARD) in the Rulebook on internal organization and systematization of Ministry of Finance from December 2023 is 4: Head of IAD, Superior internal auditor, Senior internal auditor and Junior internal auditor. Currently 3 positions are filled (Head, 1 Superior and 1 Senior internal auditor); Superior internal auditor is on a long term leave; - According to WLA for 2024 number of needed employees is 5 (1 Head of IAD, 2 Superior, 1 Senior and 1 Junior IA). Finding No 1: Lack of employees in IAD (Section of the Report 3.2.1). <i>Further implementation will be followed up within the scope of findings No 1 of this Report, therefore our proposal is that in this place finding should be considered as closed.</i>
IAC6	Policies and procedures Priority level: High Body/-ies concerned by the finding: The CHU A new method of planning individual audits (which uses the COSO model to identify risks) has recently been introduced into the internal audit function. This more structured approach is welcome, as it has	See IAC 2	See proposal of status (conclusion) for IAC2.	N/A	Status: Implemented Please, see comment bold/italic at the bottom of this column. During the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we determined that IAD for EU

Annual Audit Activity Report

	increased the focus on risk but only a few audits have been undertaken using this methodology (and none of these are IPA audits). Auditors are still learning how to apply the approach: whilst some auditors are confident, others want more support and guidance on its practical implementation. The audits that we reviewed that had used the new methodology only identified operational risks and did not reflect the emphasis that COSO and the Standards place on strategic matters, especially governance, risk management and controls. In particular, audits should support improvement of governance and risk management processes, including: • Making strategic and operational decisions; • Overseeing risk management and control; • Promoting appropriate ethics and values within the organisation; • Ensuring effective organisational performance management and accountability; • Communicating risk and control information; and • Co-ordinating activities of the board, auditors, other assurance providers and management.				Funds in its work uses only Rulebook on Methodology of work of internal audit in Public Administration (OG MNE 001/20). Separate policy and procedures are not established. Above-mentioned Rulebook was not updated and does not take into consideration the specificities of IAD of the European Union funds. Finding No. 4: Policy and Procedures/Methodology (Section of the Report 3.2.4). <i>Further implementation will be followed up within the scope of findings No 4 of this Report, therefore our proposal is that in this place finding should be considered as closed.</i>
IAC7	Improving Governance Arrangements.	• Develop annual audit plans that address the	Status: Partially implemented New priority level: Medium	Within the Programme of continuous education of internal auditors, Ministry of	Status: Implemented Please, see comment in

	Priority level: High Body/-ies concerned by the finding: Ministries None of the IACs reviewed audited governance arrangements, including for decision making, information technology, ethics and values or performance management. There were no reviews of risk management arrangements. Both auditors and their clients were of the opinion that their work in the areas of risk management and ethics were sufficient (Annex G, questions 24.20, 25.21, 26.22 and Annex H, questions 20.17 and 21.18). The survey identified that neither auditors nor their non-IPA clients were sure of the whistleblowing arrangements (Annex G, question 43.36 and Annex H, question 32.26 respectively)	governance processes for: • Making strategic and operational decisions; • Overseeing risk management and control (see IAC 8); • Promoting appropriate ethics and values within the organisation, including whistleblowing arrangements; • Ensuring effective organisational performance management and accountability; and • Assessing the information technology governance of the organisation. As the audit approach matures and expands, ensure that risk and control information is appropriately communicated across ministries and departments.	New deadline: II Q 2024 Based on the auditees` response and obtained documentation it is evident that issues in the finding have been addressed in trainings and seminars within Programme of continuous education of internal auditors. At this moment we consider that priority level should be decreased from high to medium. Taking this into account and facts given in point 1. of this Report, in our opinion these issues need continuous attention in the future Therefore, we will monitor the implementation of recommendation regarding centralised IAU for EU Funds.	Finance in cooperation with Human Resource and Management Agency organized and delivered following trainings: a) in October 2023, trainings on topic " Audit of managerial accountability and soft skills of internal audit " were held for four group of internal auditors (attendance sheets attached) b) in November-December 2023, trainings on topic "IT control and audit of information systems" were held for four group of internal auditors (attendance sheets attached) c) In April 2024, trainings on topic "Audit of governance with focus on conducting audit of planning and execution of program budget" were held for four group of internal auditors (attendance sheets attached). These workshops were attended by internal auditors appointed in Centralised Internal Audit Unit responsible for audit of EU funds.	bold/italic at the bottom of this column. During the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we determined that Head of IAD was in communication with NAO related to key audit documents. However, we noticed that there is no adequate audit trail that NAO considered/adopted Annual plan for 2024. Our proposal is that this finding should be closed, but this issue will be further monitored through follow up related to our audit engagement. Finding: Strategic and Annual Plans (Section of Report 3.2.3). <i>Further implementation will be followed up within the scope of findings No 3 of this Report, therefore our proposal is that in this place finding should be considered as closed.</i>
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Annual Audit Activity Report

IAC8	Auditing risk management. Priority level: High Body/-ies concerned by the finding: Ministries The immaturity of risk management arrangements and the compliance-based approach to audits means that only risks and controls relating to financial and operational information, safeguarding of assets and compliance with laws are routinely examined during audits. As a result, the biggest risks to each Ministry may not be identified by management and the management of the risks that are identified is not challenged or evaluated by audit. In the survey, however, auditors and their clients were of the opinion that their work on risk management was effective (see IAC 7).	IACs to advocate (and support) the development of a plan to increase risk maturity in Ministries to enable them to recognise the strategic and operational risks that they face, including fraud risks, prioritise them and take proportionate and proactive action to manage them. As risk maturity increases, carry out audits of risk management arrangements (the framework and governance processes, understanding and implementation) in a way that is proportionate to those arrangements.	Status: Partially implemented New priority level: Medium New deadline: II Q 2024 On basis of auditees' response and acquired documentation, it is evident that progress has been made in addressing this finding. Since Centralised IAU for EU Funds has enclosed Annual Audit Plan that considered fraud risks and governance processes, we consider this finding mainly closed and propose reducing the priority level from high to medium. We will monitor the implementation of this recommendation through reviewing the annual audit plan and audit reports of IAU for EU Funds in the upcoming period.	Please see IAC 7 response Beside that, within the Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency scheduled for end of May and June the following workshop "Similarities and differences between assurance and consulting engagements and conducting consulting engagements in the area of risk management". Workshops will be held for four group of internal auditors. (Attached is Program of continuous professional development of internal auditors in public sector for 2024)	Status: Implemented On the basis of auditees' response and acquired documentation, it is evident that progress has been made in addressing this finding and that further trainings are planned. Since Centralised IAU for EU Funds has enclosed Annual Audit Plan as well as Engagement plans from the sample that considered fraud risks and governance processes, <i>our proposal is that this should be closed.</i>
IAC9	Planning audit assignments Priority level: High Body/-ies concerned by the finding: Ministries and the CHU The new, COSO-based approach to audit planning and performance has improved the rigour of planning for individual audit assignments but, as noted elsewhere, the focus is on compliance risks rather than on risks to strategies and objectives.	Refer to the relevant Ministry strategies, objectives and risks when planning audit engagements. (This will be facilitated by considering these matters as part of annual audit planning – see IAC 4)	Status: Partially implemented New deadline: II Q 2024 On the basis of documentation gathered and information provided by auditees', we concluded that this finding was properly treated during the previous period. Certain trainings and workshops related to planning audit engagement were organised. We will monitor the implementation of recommendation through reviewing	Please see IAC 7 response	Status: Implemented On the basis of documentation gathered and information provided by auditees', we concluded that this finding was properly treated during the previous period. Certain trainings and workshops related to planning of audit engagement were organised, and further trainings related to this issue are planned. During the audit engagement:

Annual Audit Activity Report

			the annual audit plans and audit reports regarding centralise IAU for EU Funds in the upcoming period.		Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we determined that during planning of individual audit assignments risk assessment were performed. <i>Therefore, our proposal is that this finding should be closed.</i>
IAC 10	Contents of the Internal Audit Charter Priority level: Medium Body/-ies concerned by the finding: The CHU The CHU provides a model Charter that is used as a basis by all internal audit sections. It does not include the following mandatory elements: • A definition of the nature of assurance and consultancy services that are provided; • Reference to the Core Principles; • The Mission of internal audit; • The complete IPPF Definition of internal audit. The Charter does not clearly set out the functional and administrative reporting arrangements for each IAC. It could make it clearer that audit determines its own plans and can audit any and all Ministerial activities. Some IACs also provide an audit service for outside bodies, but the nature of this assurance work is not set out in the Charter.	Amend the Charter to address the omissions identified.	Implemented during follow up from 2022.	n/a	n/a

Annual Audit Activity Report

IAC 11	Roles beyond internal auditing Priority level: Medium Revised Risk Level: Low Body/-ies concerned by the finding: Ministries One CAE has provided significant support to the Ministry in developing risk management arrangements and risk registers. Neither the CAE nor the ministry recognised the potential conflict of interest but undertaking this work would make it difficult for audit to carry out a review of risk management arrangements.	Put in place arrangements that safeguard audit's independence and objectivity should they provide advice and support in areas such as risk management. This could be managed by asking another IAC to audit such activities. Any arrangements should be formalised in the Charter and/or the annual audit plan. The audit manual should include further guidance on managing these potential conflicts of interest.	Status: Partially implemented New deadline: II Q 2024 Based on auditees' response and obtained documentation, it is evident that some progress has been made in addressing this finding. However, in our opinion these issues need more and continuous attention in the future. We will monitor the implementation of recommendation.	In April 2024, within the Programme of continuous education of internal auditors, Ministry of Finance in cooperation with Human Resource and Management Agency organized and delivered following training "Introduction of new Global Standards of internal audit with focus on ethics and professionalism of internal auditors". Trainings were held for four group of internal auditors (attendance sheets attached). This finding was also addressed through numerous trainings organized in cooperation of Ministry of Finance and Human Resource Management Agency within Programme of continuous education of internal auditors. (attendance sheets attached in previous IACs and previous follow ups).	Status: Implemented Based on auditees' response and obtained documentation, it is evident that progress has been made in addressing this finding. Also, during the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we noticed that in chapter and Annual Plan this issue was treated well. Additionally, further trainings related to this issue are planned. <i>Bearing in mind all above-mentioned, our proposal is that finding should be <u>closed</u>.</i>
IAC 12	Keeping senior management informed. Priority level: Medium Body/-ies concerned by the finding: Ministries While some heads of audit regularly	The head of audit should report to senior management regularly and, as a minimum, discuss the audit plan for the coming year and highlight the findings of the previous year's audit work. Revise the annual audit report to include:	See proposal of status and comments for IAC 1.		Status: Implemented During the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we noticed that IAD for EU Funds submitted to the NAO all Reports; Charter is signed by

Annual Audit Activity Report

	report to senior management and the Minister, and sit on the senior management team, others do not. In the latter cases, auditors do not hear of emerging issues that might change their audit plans and senior managers are not kept informed of matters coming out of audits. The value of these discussions will increase as auditors take a more strategic and risk-based approach to their audit work. The client survey raised relationships with senior managements as an area for improvement (Annex H, question 39.33) All auditors provide an annual audit report, which is submitted to the Minister. However, these reports do not include many of the required areas.	• The purpose of the audit function, its authority and responsibilities; • The results of the quality assessment and action plan; • Significant risks identified during audits, including fraud risks and governance issues; and • Resource requirements and the limitations placed on plans as a consequence of vacancies.			Head of IAD for EU Funds, NAO and Minister of Finance; Annual Report of work for 2023 was prepared and submitted including results of performed Quality self-assessment and Action Plan. Bearing in mind all mentioned, <i>our proposal is that finding should be <u>closed</u>.</i>
IAC 13	Planning audit assignments Priority level: Medium Body/-ies concerned by the finding: Ministries and the CHU While all auditors emphasised the importance placed on adding value in their work through making recommendations for improvements, this was not routinely referenced in their audit planning and reporting. Several auditors said that adding value was one of the things that they most enjoyed about their audit work (Annex G, question 52.45) and clients mentioned that	Ensure that opportunities to add value through identifying potential improvements to governance, risk management and control processes are included in audit planning Allocate resources to audits according to how much time is necessary to adequately achieve its objectives.	Status: Partially implemented New deadline: II Q 2024 Based on auditees' response and obtained documentation, it is evident that some progress has been made in addressing this finding. Taking this into account, we consider this finding mainly closed and propose reducing the priority level from medium to low. However, we will monitor the implementation of the recommendation through reviewing the annual audit plans (and	This finding was addressed through numerous trainings organized in cooperation of Ministry of Finance and Human Resource Management Agency within Programme of continuous education of internal auditors. (attendance sheets attached in previous IACs and previous follow ups). MoF continuously undertakes efforts to address this issue and to improve audit planning process.	Status: Implemented Please, see comment in bold/italic at the bottom of this column. During the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we determined that all individual assignments were properly planned. However, one audit planned to be performed during 2023 was not conducted due to lack of staff. One Superior internal auditor is on a long-term maternity leave.

Annual Audit Activity Report

	auditors did indeed add value (Annex H, question 4.3) Each audit is initially assumed to take 30 days. Some audit functions adjust this allowance according to the level of assumed risk of the audited activity (20 days for a low risk audit and 40 days for a high-risk audit). However, there is no consideration of the days that are actually needed to carry out an audit; instead audits are planned to fit this initial allocation.		supporting documents) as well as audit engagements of centralised IAU for EU Funds, in the upcoming period.		Further implementation will be followed up within the scope of findings No 1 of this Report, therefore our proposal is that in this place finding should be considered as <u>closed</u>.
IAC 14	Evidence of supervision. Priority level: Medium Body/-ies concerned by the finding: Ministries and the CHU There is evidence of engagement supervision in the form of signatures or initials on working papers. However, no record is kept of any points that were identified during the review nor how those points were cleared.	Develop review sheets to record items raised and cleared. These documents should be retained in the audit file.	Status: Implemented (follow up 2022)	n/a	This finding was considered as closed during follow up performed in 2022. However, during this audit engagement we determined a new finding related to evidence of supervision. Finding No 6.
IAC 15	Audit opinions Priority level: Low Body/-ies concerned by the finding: Ministries and the CHU Audit reports do include an opinion, but this is hidden in the text. In addition, the opinions are not formalised, for example by having four levels of opinion with clear	Clearly define different levels of audit opinion, discussing and agreeing this with senior management. Ensure that the opinion is given adequate prominence in audit reports.	Status: Implemented Having in mind, that previous status was implemented preliminary and facts given in point 1. of this Report we consider this recommendation implemented and finding closed. This issue will be in scope of audits of AA in upcoming period		Status: Implemented After having examined Audit Reports issued by IAD for EU Funds, during the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we determined that all opinions were given adequate

Annual Audit Activity Report

	definitions for each level.		regarding this centralised IAU for EU Funds.		prominence in audit reports. Bearing in mind all mentioned, <i>our proposal is that finding should be closed.</i>
IAC 16	Recognising satisfactory performance Priority level: Low Body/-ies concerned by the finding: Ministries Reports are written on an exception basis and satisfactory performance is not acknowledged.	Ensure that satisfactory performance is acknowledged in audit reports. This will be easier if reports are risk-based as a risk rating can then be used.	Status: Partially implemented New deadline: II Q 2024 Based on auditees' response and obtained documentation, it is evident that some progress has been made in addressing this finding. We will monitor the implementation of recommendation in the upcoming period regarding centralised IAU for EU Funds.	This finding was addressed through numerous trainings organized in cooperation of Ministry of Finance and Human Resource Management Agency within Programme of continuous education of internal auditors. (attendance sheets attached in previous IACs and previous follow ups).	Status: Implemented Based on auditees' response and insight into Audit Reports issued by IAD for EU Funds, during the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we determined that this issue was properly treated. Therefore, our proposal is that finding should be closed.
IAC 17	Claiming conformity with the International Standards. Priority level: Low Body/-ies concerned by the finding: Ministries and the CHU The conformance statement is not used in audit reports but it is included in the Charter and in self-assessments that have been reported.	Do not use the conformity statement without a quality assurance and improvement programme. Instead use a statement to recognise the importance of the international standards in carrying out internal audit work.	Status: Implemented Having in mind, that previous status was implemented preliminary and facts given in point 1. of this Report we consider this recommendation implemented and finding closed. However, this issue will be in scope of audits of AA in upcoming period regarding this centralised IAU for EU Funds.		Status: Implemented During the audit engagement: Audit of efficient and effective functioning of internal audit of EU funds (Ministry of Finance), we noticed that Quality Assurance and Improvement Program was prepared by the Head of IAD for EU Funds. Also, we noticed Quality self-assessment was performed. Therefore, our proposal is that finding should be closed.

Table 16

Annual Audit Activity Report

As a result of this follow up, AA's proposal of status is that all findings should be closed. However, some findings identified during above mentioned audit engagement are similar to those that were given in BDO's report and will be further monitored within follow up of implementation of recommendation given in Final Report on audit of the efficient and effective functioning of internal audit of EU Funds in Ministry of Finances. The Final Audit Report was issued and submitted to National Authorising Officer (NAO) on 21st June 2024.

Summary AA's proposal of status of all findings from BDO's Audit on Internal Audit Capacities (IAC) in the context of Internal Control Framework under the Instrument for Pre-Accession (IPA II) is given in table below:

No	Finding	AA's proposal of status in February 2022	AA's proposal of status in October 2023	AA's proposal of status in May 2024	Reference to Finding in Report from 21st June 2024
IAC1	Demonstrating independence and objectivity. Priority level: High Body/-ies concerned by the finding: Ministries and the CHU	Status: Partially implemented	Status: Implemented	Status: Implemented <i>Our proposal is that this finding should be closed, but this issue will be further monitored through follow up related to our audit engagement.</i> Finding No.3: Strategic and Annual Plans (Section of Report 3.2.3).	Finding No 3
IAC2	Developing and ensuring proficiency. Priority level: High Body/-ies concerned by the finding: Ministries and the CHU	Status: Implemented (preliminary)	Status: Implemented	Status: Implemented	n/a
IAC3	Quality assurance and improvement Priority level: High Body/-ies concerned by the finding: Ministries and the CHU	Status: Implemented (preliminary)	Status: Implemented	Status: Implemented	n/a
IAC4	Strategic risk-based planning Priority level: High Body/-ies concerned by the finding: Ministries and the CHU	Status: Partially implemented	Status: Implemented	Status: Implemented	n/a
IAC5	Recruitment and retention. Priority level: High Body/-ies concerned by the finding: Ministries	Status: Partially implemented	Status: Partially implemented New deadline: II Q 2024	Status: Implemented <i>Further implementation will be followed up within the scope of findings No 1 of this Report, therefore our proposal is that in this place finding should be considered as closed.</i>	Finding No 1
IAC6	Policies and procedures Priority level: High Body/-ies concerned by the finding: The CHU	See proposal of status (conclusion) for IAC2. Status: Implemented (preliminary)	Status: Implemented	Status: Implemented <i>Further implementation will be followed up within the scope of findings No 4 of this Report, therefore our proposal is that in this place finding should be considered as closed.</i>	Finding No 4

Annual Audit Activity Report

IAC 7	Improving Governance Arrangements. Priority level: High Body/-ies concerned by the finding: Ministries	Status: Partially implemented	Status: Partially implemented New priority level: Medium New deadline: II Q 2024	Status: Implemented <u>Further implementation will be followed up within the scope of findings No 4 of this Report, therefore our proposal is that in this place finding should be considered as closed.</u>	Finding No 4
IAC8	Auditing risk management. Priority level: High Body/-ies concerned by the finding: Ministries	Status: Partially implemented	Status: Partially implemented New priority level: Medium New deadline: II Q 2024	Status: Implemented <u>Further implementation will be followed up within the scope of findings No 3 of this Report, therefore our proposal is that in this place finding should be considered as closed.</u>	Finding No 3
IAC9	Planning audit assignments Priority level: High Body/-ies concerned by the finding: Ministries and the CHU	Status: Partially implemented	Status: Partially implemented New deadline: II Q 2024	Status: Implemented	n/a
IAC10	Contents of the Internal Audit Charter Priority level: Medium Body/-ies concerned by the finding: The CHU	Status: Implemented (follow up 2022)	n/a	n/a	n/a
IAC11	Roles beyond internal auditing Priority level: Medium Revised Risk Level: Low Body/-ies concerned by the finding: Ministries	Status: Partially implemented	Status: Partially implemented New deadline: II Q 2024	Status: Implemented	n/a
IAC12	Keeping senior management informed. Priority level: Medium Body/-ies concerned by the finding: Ministries	Status: Partially implemented	See proposal of status and comments for IAC 1. Status: Implemented	Status: Implemented	n/a
IAC13	Planning audit assignments Priority level: Medium Body/-ies concerned by the finding: Ministries and the CHU	Status: Partially implemented	Status: Partially implemented New deadline: II Q 2024	Status: Implemented <u>Further implementation will be followed up within the scope of findings No 1 of this Report, therefore our proposal is that in this place finding should be considered as closed.</u>	Finding No 1
IAC14	Evidence of supervision. Priority level: Medium Body/-ies concerned by the finding: Ministries and the CHU	Status: Implemented (follow up 2022)	n/a	n/a	Finding No 6
IAC15	Audit opinions Priority level: Low Body/-ies concerned by the finding: Ministries and the CHU	Status: Implemented (preliminary)	Status: Implemented	Status: Implemented	n/a
IAC16	Recognising satisfactory performance Priority level: Low Body/-ies concerned by the finding:	Status: Partially implemented	Status: Partially implemented New deadline: II Q 2024	Status: Implemented	n/a

Annual Audit Activity Report

	Ministries				
IAC17	Claiming conformity with the International Standards. Priority level: Low Body/-ies concerned by the finding: Ministries and the CHU	Status: Implemented (preliminary)	Status: Implemented	Status: Implemented	n/a

Table 17

7.2. Subsequent events affecting the previous opinion and the previous annual audit activity report under Article 12(3) of Commission Implementing Regulation (EU) No 447/2014.

Not applicable.

8. OTHER INFORMATION

8.1. Information on reported fraud and suspicions of fraud, together with measures taken

Not applicable.

8.2. Subsequent events occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual activity report

Not applicable.

8.3. Any other information that the audit authority considers relevant and important to communicate to the Commission

Not applicable.

9. OVERALL LEVEL OF ASSURANCE

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

Bearing in mind that no expenditure was declared to the EC, i.e. the NAO did not submit any Request for Funds (including Declaration of expenditure) to the EC, and the fact that AA was not in a position to carry out an audit of operations/samples of transactions, the assurance on the proper functioning of the management and control system is based on the results of the system audits (system assessment – please see section 4 above). As a result of the system audits, the management, control and supervision system established for IPA II 2015-2017 SOPEES is assessed as „works, but some improvement(s) are needed “. Therefore, it is appropriate to issue an unqualified opinion on the proper functioning of the MCSS and disclaimer of opinion on the legality and regularity of expenditure.

The assurance on the accounts is based on the results of the audit of accounts as described in section 6.3 of this AAAR, adequately documented check lists and working papers related to the Audit of Accounts.

Based on the audit work performed, Audit Authority auditors have obtained reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts submitted to the Commission for the accounting year 2024, except for amounts Total Disbursement Amount, Recovery context and Cost recognized.

Total Disbursed Amount were presented incorrectly in the amounts of 77,412.03€ (EU contribution) and 13,661.00€ (National contribution) which represents 0,56% of the reported amount (13,736,191.02€ EU contribution; 2,424,033.68€ National contribution).

Total cost recognized were presented incorrectly in the amounts of 3,812.76€ (EU contribution) and 675.84€ (National contribution) which represents 0,03% of the reported amount (13,531,835.35€ EU contribution; 2,387,970.90€ National contribution).

Starting from the fact that Disbursement Amount and Cost recognized in AFR were reported incorrectly in the amounts that are not material, i.e. the determined error is below the materiality threshold of 2% and that columns *recovery context* did not have an impact on the disbursed amount and on the cost recognized presented in AFR (which will be declared to EC), we consider that it is appropriate to conclude that the financial statements give a true and a fair view.

Also, the audit work carried out does not put in doubt the assertions made in the management declaration

Consequently, for the period 1st January-31st December 2024 we will issue an unqualified opinion on reliability of the annual financial reports or statements/annual accounts.

9.2. Analysis of significance of total error rate in a case when it is above the materiality level

Not applicable.

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

Not applicable.

9.4. Assessment of any relevant subsequent adjustments made and corrective actions taken

Not applicable.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Fund	Reference (CCI)	Programme	A Expenditure declared to the Commission in reference to the year	B Expenditure in reference to the financial year audited for the random sample		C Total number of units in the population	D Number of sampling units for the random sample	E Amount and percentage (error rate) of irregular expenditure in random sample		F Total projected error rate	G Corrections implemented as a result of the total error rate	H=F-G Residual total error rate	GI Other expenditure audited	JH Amount of irregular expenditure in other expenditure sample
				Amount	%			Amount	%	%				
IPA	C(2015) 9051 09/12/2015 CRIS decision No. 2015/037-895	Multi-annual action programme for Montenegro on Employment, Education and Social policies	/	/	/	/	/	/	/	/	/	/	/	/

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ⁱ Some parts of the report are covered for IT security reasons