

Standard Summary Project Fiche – IPA centralised programmes
Project Fiche: 9

1. Basic information

1.1 CRIS Number: 2009/021-170

1.2 Title: **Strengthening the management and control systems for EU financial assistance in Montenegro**

1.3 ELARG Statistical code: 03.32

1.4 Location: Montenegro

Implementing arrangements:

1.5 Contracting Authority: Delegation of the European Commission to Montenegro

1.6 Implementing Agency: N/A

1.7 Beneficiary (including details of project manager):

Key beneficiaries: NAO/NF, PAO/CFCU, CHU

Ministry of Finance/National Fund

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Ministry of Finance, CFCU

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Project partners: NIPAC, Strategic Coordinator, SPOs, PIUs, Internal Audit Units

Financing:

- | | |
|---|--|
| 1.8 Overall cost: | 2,300,000 EUR |
| 1.9 EU contribution: | 2,000,000 EUR |
| 1.10 Final date for contracting: | Two years from the date of the conclusion of the Financing Agreement |
| 1.11 Final date for execution of contracts: | Two years from the final date for contracting |
| 1.12 Final date for disbursements: | One year from the final date for execution of contracts. |

2. Overall Objective and Project Purpose

2.1 Overall Objective

To ensure the efficient and effective use of the EU financial assistance and public funds in accordance with the law and EU standards.

2.2 Project purpose:

To strengthen management and control system allowing the proper use of public and EU funds.

2.3 Link with AP/NPAA / EP/ SAA

The project addresses the further development of units in the relevant public administration entities involved in EU integration process and implementation of IPA instrument. According to the Action Plan it is necessary to follow the principles and develop procedures and adequate administrative capacities in the framework of Decentralized Implementation System (DIS) aligned to EU requirements.

Under Article 114 (Public administration) of the SAA, Montenegro must guarantee the development of an efficient and accountable public administration in Montenegro, notably to support rule of law implementation, the proper functioning of the state institutions for the benefit of the entire population of Montenegro as a whole and the smooth development of the relations between the EU and Montenegro.

Establishment of DIS is mid-term priority of Montenegrin Government according to National Program for Integration (NPI). NPI stresses the importance of the establishment and further development of transparent procedures and accountable DIS structures. In that sense, it is envisaged that the NF and the CFCU will recruit sufficient staff, ensure adequate training and formalize division of responsibilities and accountabilities by relevant operational agreements and governmental decisions, respectively.

2.4 Link with MIPD

According to the MIPD 2009 - 2011 assistance will be provided for supporting Montenegrin authorities to deal successfully with the European integration process, which comprises preparing their responsibilities in the decentralized implementation system (DIS) encompassing programming, procurement, control and monitoring aspects of EU assistance. This should result in the existence of a functioning system for the implementation of IPA programmes and projects at a well advanced stage and implemented road map to DIS accreditation.

2.5 Link with National Development Plan

Not applicable

2.6 Link with national/ sectoral investment plans

The Information on Establishment of Decentralized Implementation System in Montenegro, which contains Indicative Time-lines for various activities in the relation to the DIS preparations in Montenegro, was adopted by the Government in February 2008. According to the Indicative Timelines, the technical assistance for phasing in of DIS system for implementation of IPA Components has been planned within IPA 2009 budget.

3. Description of project

3.1 Background and justification

Montenegro has started to get benefits from European Community through CARDS programmes during the period from 1998 to 2006. In this period, EU committed over € 277, 2 million to Montenegro. Programmes under CARDS have been implemented under the responsibility of the European Agency for Reconstruction (EAR). With the establishment of the EC Delegation to Montenegro (ECD) the responsibilities for the management of the EU funds were transferred from the EAR to the ECD. The funds are currently managed under the centralized system. The decentralization of the management regarding the EU funds requires:

- Establishment of clear systems and designation of institutions responsible for programming and monitoring, for financial management, for programme implementation and for auditing of IPA programmes.
- Nomination of high-level officials responsible for national programming and for the implementation of programmes.
- Relevant legal framework is in place to ensure proper functioning of the system.
- Separation of functions at least:
 - between programming of funds and implementation;
 - between procurement and payments;
 - between implementation and audit.
- Recruitment of an adequate number of staff relevant to administering EU funds, provision of relevant training and the availability of detailed management tools (guidelines, procedures' manuals etc).

The last years, 2007 and 2008, demonstrate an important raise in the understanding of the Government of Montenegro of the importance of IPA and of Decentralized Implementation System (DIS) in Montenegro. The process was very much supported by the SIGMA experts who provided proposals regarding the manner of establishment of DIS structures and division of tasks between them, as well as recommendation of detailed plan of activities with dynamics of their accomplishment. SIGMA efforts on assessment of situation in Montenegrin administration resulted in adoption of the *Information on Establishment of DIS in Montenegro by the Government in February 2008*, which prescribes establishment of key DIS functions. It also contains the Indicative Action Plan elaborating all necessary activities that will be undertaken during the period 2008-2010, and sets the requirements regarding the number of employees in the CFCU.

Further to Article 21 of the IPA Implementing Regulation the Government of Montenegro established the list of different bodies and designated the specific authorities:

- a national IPA co-ordinator (NIPAC);
- a competent accrediting officer (CAO);
- a national authorizing officer (NAO);
- a national fund (NF).

The operating structures under IPA components 1 is under creation, as well as the Audit Authority (AA). The Ministry of Finance of Montenegro has put in practice numerous activities which resulted in creation of different units within existing organization structure of the Ministry. Namely, in December 2007 the Government of Montenegro adopted a *Rulebook on Systematization and Internal Organization*, which specifies setting up of the Central Financing and Contracting Unit (CFCU). In March 2008 the PAO was designated. In order to prepare for decentralised management of EU funds, “*First Steps for a Decentralized Implementation System (DIS) in Montenegro*” Project funded under CARDS 2006 was launched in September 2008. The main aim of this project is to support and guide the CFCU/PAO, the NF/NAO, the NIPAC and partially the SPOs in establishing the institutional and legal framework and fulfilment of accreditation criteria for introduction of DIS in the management of IPA Components 1 and 2.

The Ministry of Finance of Montenegro is the institution in charge of establishing and developing the public internal financial control system of Montenegro.

Harmonization with the general principles of the *acquis* referring to financial control requires global access to the development of a modern public internal financial control system that combines managerial responsibility for the establishment of both FMC and internal audit.

The Law on Budget and enabling secondary legislation, as well as other laws, prescribe some elements of financial management and internal control, but they do not prescribe the comprehensive establishment of an overall FMC system based on generally accepted internal control standards.

Activities for the development of public sector internal audit of Montenegro were initiated with the adoption of the Law on Budget in 2001, setting forth the obligation of the Ministry of Finance to perform audit of: accounting documents, receipts, contracted obligations and expenses with the spending units, extra budgetary funds and municipalities. At the end of 2003, the Sector for Internal Audit was established within the Ministry of Finance, which, as a centralized internal audit function, performs audits of all budgetary users.

In accordance with European Commission recommendations, the Government of Montenegro adopted the document “Development Strategy of Public Internal Financial Control in Montenegro” in December 2007. The document describes key elements of the current situation and the development strategy for establishing comprehensive and effective public internal financial control of Montenegro.

In accordance with the Action Plan for the implementation of the Development Strategy of Public Internal Financial Control, activities have been identified for the implementation of the Strategy. As a result, the Draft Law on Public Internal Financial Control System was developed during 2008. The Government of Montenegro adopted the Draft Law in October 2008, and the Parliament of Montenegro adopted the Law in November 2008..

In order to strengthen institutional capacities for the development of the public internal financial control (PIFC) system, as well as to implement the Action Plan for the implementation of the PIFC Strategy, the Rulebook on internal organization and systematization was amended in September 2008. On the basis of these amendments the Sector for Internal Audit was transformed into the Sector for the harmonization of financial management and control and internal audit (CHU – Central Harmonization Unit) consisting of two departments: the Department for Financial Management and Control Harmonization and the Department for Internal Audit Harmonization. The sector is responsible for implementing development activities of central coordination and harmonization of the public internal financial control system.

In November 2008, employees who had performed centralized internal audit tasks up till then were reassigned to the CHU. In order to initiate the successful implementation of the Law on Public Internal Financial Control System, strengthening the capacity of the CHU to coordinate the establishment and development of this system throughout the public sector will be a priority need. In addition, continuous capacity building is needed for the independent internal audit units and for establishing and developing financial management and control in public sector institutions. Building such capacity would strengthen the financial management and control system, internal audit and reporting on the use of funds from national sources and EU funds in public sector institutions of Montenegro.

In December 2008, the Government of Montenegro submitted to the EC its application for obtaining the status of a candidate country. Once Montenegro becomes a candidate country, it will be able to start using IPA funds allocated under IPA Components 3, 4 and 5.

Both processes mentioned above highlight the necessity for continued and enhanced support for capacity building and further strengthening of responsible IPA bodies, so that smooth and sustainable functioning of accredited systems would be ensured and the responsibilities and functions for management of EU funds of the relevant IPA Components concerned could be gradually taken over.

This project, funded from IPA 2009, will focus on further strengthening of the administrative capacities of the institutions involved in the management, control and audit of the EU funds. It will provide the appropriate grounds for implementing EU assistance in accordance with European standards and *acquis*. Taking into account that EU integration process is the top priority of the Government of Montenegro, it is certain that national authorities will provide adequate basis for major responsibilities arising from future EU accession process.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

The project will have positive impact on fulfilment of commitments with regard to the SAA and pre-accession process. Efficient management of EU and public funds is an indication of readiness to benefit from the existing support mechanisms in the EU and implement development policies in favour of the citizens.

The project will further strengthen and develop the capacity of all the key players involved to efficiently use the EU financial assistance under IPA components 1 - 5 and to manage the IPA funds in accordance with the IPA requirements.

Given the scope of activities split to several components, the project should imply building up of communication and co-ordination strategy generating a synergy among the key players and more generally, within the government.

The project has no direct cross border impact.

3.3 Results and measurable indicators

The expected results and measurable indicators for the activities are:

Result 1: Financial management and control system set up for implementation of IPA Component 1 and 2 programmes functions smoothly under DIS system;

The achievement of this result will be indicated by:

- % of commitment rates for IPA funds of IPA Component 1 and 2 managed under DIS (over 70%);
- % of disbursement rates for IPA funds of IPA Component 1 and 2 managed under DIS (over 70%);
- Update and quality information on the funded projects available through the developed IT system (MIS).

Result 2: Set up of financial management and control system for implementation of IPA Components 3, 4 and 5 under DIS system in accordance with the IPA requirements;

The achievement of this result will be indicated by:

- Positive compliance assessment regarding the accreditation of Components 3, 4 and 5;
- Legal framework formally adopted by the Government;
- New and improved procedures manuals produced within project duration and authorized by the responsible Head of the IPA body concerned;

Result 3: Mechanism in place to monitor by the NAO the maintenance of the minimum criteria for accredited IPA Component 1 and 2 and to co-ordinate and supervise the process of accreditation of IPA Component 3, 4 and 5;

The achievement of this result will be indicated by:

- Statement of Assurance issued by the NAO

Result 4: CHU administrative capacity built up;

The achievement of this result will be indicated by:

- Number of certified internal auditors
- Number of people trained by CHU

Result 5: Internal Audit services developed;

The achievement of this result will be indicated by:

- Number of Internal Auditors trained (30)
- Number of Audit reports

Result 6: Capacity for FMC established and developed in 5 pilot institutions;

The achievement of this result will be indicated by:

- Internal FMC procedures adopted by 5 ministries
- Number of people trained (40)

3.4 Activities

COMPONENT 1 – SUPPORT TO THE NAO/ DEPUTY NAO/NF

1. Provide advice to the NAO in maintaining functioning of the accredited IPA Components 1 and 2;
2. Provide advice to the NAO in setting-up, modifying, co-ordinating and supervising in the pre-accreditation process the Montenegrin IPA institutions to be accredited for Components 3, 4 and 5;
3. Provide on-the-job training to the NF in its operational activities;
4. Developing internal procedures of the NF for Components 3, 4 and 5;
5. Thematic training for the NF and other relevant beneficiary representatives, if applicable;
6. Assessment of the IT needs and development of an IT system used for the monitoring and management of IPA funds.

COMPONENT 2 – support to the PAO / CFCU

1. Support the PAO /CFCU in organizational and operational activities and upgrading of internal procedures within the CFCU and the relating PIUs headed by the SPOs;
2. Assist the CFCU in quality control of procurement and financial documents;
3. Developing internal procedures of the CFCU for Component 3 and 4, in case the CFCU shall act as an IA under IPA Component 3 and 4;
4. Thematic training for the CFCU staff and other relevant beneficiary representatives.

COMPONENT 3 – SUPPORT TO THE NIPAC/Strategic Co-ordinator

1. Assistance to the NIPAC/Strategic Co-ordinator and other relevant bodies in monitoring of pre-accession programmes;
2. Setting up a national evaluation system in compliance with the requirements for IPA components;
3. Assistance to the NIPAC/Strategic Co-ordinator and other relevant bodies in the communication and information process and promotion of visibility of EU assistance;
4. Thematic training to NIPAC/Strategic Co-ordinator and other relevant bodies on programming, monitoring and evaluation processes, in particular as regards IPA Components 3 and 4.

COMPONENT 4 – SUPPORT TO THE CHU

1. Assessment of the current capacity for internal audit and financial management control;
2. Support for introducing of FMC, developing methodology and manuals, development of training program and trainings, as well as development of internal rules;
3. Support for Internal Audit, reviewing internal auditor's manual in order to check compliance with EU practice. Training program and Training Consultancy providing support to the internal audit units in 5 selected institutions in the development of strategic, annual and individual audit plans, performing field audits and generating audit reports. Establishment of internal auditor's certification procedure.
4. Providing assistance in strengthening the administrative capacity of the CHU of the Ministry of Finance in performing its basic functions, and especially training CHU staff to review competently the qualitative functioning of the financial management and control and internal audit of public sector entities, with the objective of gathering information on adherence and improvement of methodologies and working standards and reporting on functioning of the internal control system.

COMPONENT 5 –NATIONAL COMPLIANCE ASSESSMENT

1. Compliance assessment review of financial management and control system set up for the management of IPA components 3, 4 and 5 under DIS

COMPONENT 6 – SUPPLY OF IT EQUIPMENT

1. Supply of IT equipment necessary for the new employees in IPA bodies involved and for improving the efficiency of daily performance.

The project will be implemented through 3 contracts:

- Contract 1: Service – will be financed 100% by IPA funds and will cover components 1, 2, 3 and 4.
- Contract 2: Service – will be financed by national funds and will cover the compliance assessment activities (Component 5)
- Contract 3: Supply – will be financed by national funds and will cover the purchase of IT equipment (Component 6)

3.5 Conditionality and sequencing

The project is conditional on the overall progress of the accreditation process with regard to the IPA Components 1 & 2 and should build on the results of the project supporting first steps in design and set up of the system for introduction of decentralized management of IPA Components 1 and 2. In particular, the project is conditional on the NAO at the Ministry of Finance accepting his/her responsibility for overall co-ordinating, supervising and ensuring effective functioning of the DIS implementation system and follow-up of conditions to be met by the national authorities, providing the necessary staff and other resources for this project to achieve and sustain the results targeted.

The project will require the full commitment and participation of the staff of the IPA bodies involved in the management of IPA Components concerned, and in particular of the bodies acting as direct beneficiaries of this project.

There are clear interlinkages between the first two contracts. Contract 1 will encompass the activities for provision of support to IPA bodies and development of proper monitoring information system (MIS) which will provide quality information about running projects financed from EU funds. Contract 2 should follow the results of the Contract 1 and will relate to engagement of an external audit company for carrying out national compliance assessment review of the financial management and control system set up with regard to the accreditation of IPA Components 3, 4 and 5. The third contract is related to supply of IT equipment necessary for the new employees in IPA bodies involved (NF, CFCU, CHU, MF-IAU) and for improving the efficiency of daily performance. The Contract 1 will be financed by IPA funds, whereas the Contract 2 for a national compliance assessment and the Contract 3, for, supply of IT equipment will be financed from national sources.

3.6 Linked activities

The project should be seen in the context of the following related projects:

The CARDS project ***“First Steps for a Decentralized Implementation System”*** is aimed to strengthen administrative and managerial capacities of DIS key stakeholders and structures in order to obtain a positive compliance assessment by the European Commission.

The project started in September 2008 and should end in December 2009. The project shall provide assistance to the main stakeholders involved in implementation of IPA Components 1 and 2 in establishment of relevant institutional and legal framework for implementation under decentralized system. Further more, the project will provide assistance in design and appropriate set up of financial management and control systems with rules and procedures described in procedures manuals, in compliance with IPA requirements and accreditation criteria, as laid down in the Annex 1 of the IPA Implementing Regulation.

The present project should build directly on the results of this CARDS project leading towards accreditation of the DIS system for IPA Components 1 and 2 in Montenegro.

The CARDS project ***”Support to implementation of Cross-border Programs in the Framework of IPA Component II in Montenegro”*** is aimed to set up institutions for all cross-border programmes that Montenegro is involved in. The role of these institutions will be implementation and monitoring of programs within IPA Component II.

3.7 Lessons learned

Integration into EU policies and procedures - The latest Enlargement process has demonstrated that devolution (de-concentration, progressive de-centralization) towards Commission delegations and national administrations of beneficiary countries of existing pre-accession instruments has been an efficient way to assist beneficiary countries on their way to accession by progressively integrating them in EU policies and by teaching them to manage EU financial aid in autonomous way as integral part of preparations for their future participation in structural funds and rural development funds after accession.

Lessons of experience show, that complex projects with multi beneficiaries require good and efficient co-ordination between main actors involved, in order to ensure successful implementation of project activities. For this reason, a project Steering Committee will be established to monitor project implementation on regular basis. This project Steering Committee shall be chaired by the National Authorizing Officer and include appointed representatives of the National Fund, the CFCU, the NIPAC/Strategic Co-ordinator, the EC Delegation, and the consultants delivering the services.

Through implementation of its activities, the project should contribute to building of the motivation for participation at trainings and workshops by the staff of IPA bodies involved, by which they should improve their current level of knowledge and understanding of IPA rules and procedures. By obtaining practical skills which they should demonstrate in practice at later stages of actual implementation of IPA programmes/projects, their motivation for keeping their positions in respective institutions within public administration should be increased.

4. Indicative Budget (amounts in €)

				SOURCES OF FUNDING								
			TOTAL EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB	INV	EUR (a)=(b)+(c)+(d)	EUR (b)	%	Total EUR (c)=(x)+(y)+(z)	%	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	%
Activities covered by Components 1, 2, 3 and 4												
Contract 1	x		2,000,000	2,000,000	100.00%							
Activities covered by Component 5												
Contract 2	x		170,000			170,000	100%	170,000				
Activities covered by Component 6												
Contract 3		x	130,000			130,000	100%	130,000				
TOTAL IB			2,170,000	2,000,000	92.17%	170,000	7.83%	170,000				
TOTAL INV			130,000			130,000	100%	130,000				
TOTAL PROJECT			2,300,000	2,000,000	86.96%	300,000	13.04%	300,000				

Amounts net of VAT

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1 service	Q3 2009	Q1 2010	Q1 2012

Contract 2 and Contract 3 lay under the responsibility of the national authorities.

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 2 service	Q4 2010	Q2 2011	Q2 2012
Contract 3 supply	Q3 2009	Q1 2010	Q3 2010

6. Cross cutting issues

6.1 Equal Opportunity

Gender equality is an important component of integrated public administration reform actions. In Montenegro, female civil servants mainly fill low to middle range positions but carry out most of the activities in terms of implementing public policy reform actions. This project will encourage female civil servants to have a greater involvement in the diagnostic process in developing, more integrated and coordinated public financial reform policy actions.

6.2 Environment

Environment will be considered a major cross-cutting issue in almost all segments of the future project implementation under DIS, in particular in the areas of transport infrastructure, environmental protection, renewable energy, research & development, economic diversification of rural areas, development of cities and cooperation – cross-border, trans-national and interregional.

6.3 Minorities

There are current legislative provisions for the protection of minority rights. The proposed project will make sure that the internal policies, structure or operating procedures of the beneficiary will conform with or promote minority issues.

ANNEXES

Annex 1- Log frame in Standard Format

Annex 2- Amounts contracted and Disbursed per Quarter over the full duration of Programme

Annex 3 - Reference to laws, regulations and strategic documents:

Annex 4- Description of the Institutional framework

Annex 5- Details per EU funded contract

Annex 1- Log frame in Standard Format

LOGFRAME PLANNING MATRIX FOR Project Fiche		Programme name and number: Strengthening the management and control systems for EU financial assistance in Montenegro (2009/021-170)	
		Contracting period expires two years from the date of the conclusion of the Financing Agreement	Disbursement period expires one year from the final date for execution of contracts
		Total budget: 2,300,000 EUR	IPA budget: 2,000,000 EUR
Overall objective	Objectively verifiable indicators	Sources of Verification	
Efficient and effective use of the EU financial assistance and public funds in accordance with the law and EU standards.	<ul style="list-style-type: none"> Continuous EU financial support for Montenegro (IPA National Programmes and Operational Programmes approved by the EC) Positive audit opinion of the State Audit Institution (SAI) 	<ul style="list-style-type: none"> EC regular progress reports State Audit Institution Report 	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
To strengthen management and control system, allowing the proper use of public and EU funds	<ul style="list-style-type: none"> Accreditation obtained under components 1-4 Positive quality assessment of functioning of the PIFC in the public sector system. Assessment performed by CHU 	<ul style="list-style-type: none"> EC Decisions on Conferral of Management to Montenegro Reports by CHU to the Government of Montenegro 	<ul style="list-style-type: none"> Good understanding by the Montenegrin Government's officials of EU financial support, DIS process and its implications for accession. Establishment and proper functioning of the Audit Authority

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>1. Financial management and control system set up for implementation of IPA Component 1 and 2 programmes functions smoothly under DIS system;</p> <p>2. Set up of financial management and control system for implementation of IPA Components 3, 4 and 5 under DIS system in accordance with the IPA requirements;</p> <p>3. Mechanism in place to monitor by the NAO the maintenance of the minimum criteria for accredited IPA Component 1 and 2 and to co-ordinate and supervise the process of accreditation of IPA Component 3, 4 and 5;</p> <p>4. CHU administrative capacity built up</p> <p>5. Internal Audit services developed</p> <p>6. Capacity for FMC established and developed in 5 pilot institutions</p>	<p>– % of commitment rates for IPA funds of IPA Component 1 and 2 managed under DIS (over 70%);</p> <p>– % of disbursement rates for IPA funds of IPA Component 1 and 2 managed under DIS (over 70%);</p> <p>– Update and quality information on the funded projects available through the developed IT system (MIS).</p> <p>– Positive compliance assessment regarding the accreditation of Components 3, 4 and 5;</p> <p>– Legal framework formally adopted by the Government;</p> <p>– New and improved procedures manuals produced within project duration and authorized by the responsible Head of the IPA body concerned;</p> <p>– Statement of Assurance issued by the NAO</p> <p>-Number of certified internal auditors</p> <p>-Number of people trained by CHU and Internal Audit</p> <p>-Number of Internal Auditors trained (30)</p> <p>-Number of Audit reports</p> <p>-Internal FMC procedures adopted by 5 ministries</p> <p>-Number of people trained (40)</p>	<ul style="list-style-type: none"> • Audit reports (follow-up audits, compliance assessment audits, verification audits, internal audits) • NAO/NF/NIPAC reports • i-Perseus • IPA Manuals of Procedures (IPA MoPs) • Progress reports on MIS design 	<ul style="list-style-type: none"> • Effective co-operation between different public administration bodies/entities is maintained. • NAO maintains ongoing operations and integrity of the DIS system, has effective control over the PAO/SPOs and other IPA bodies involved • Effective Human Resources Management throughout the national administration has been ensured • IPA Funds and national co-financing has been ensured by signature of the relevant FA. • EC releases IPA funds in a timely manner. • Payments transactions are supported by solid and up-to-date accounting. • Establishment of Internal Audit Units within line ministries

Activities	Means	Costs	Assumptions
<p>COMPONENT 1 – SUPPORT TO THE NAO/ DEPUTY NAO/NF</p> <ol style="list-style-type: none"> 1. Advice to the NAO in maintaining functioning of the accredited IPA Components 1 and 2 2. Advice to the NAO regarding the accreditation for Components 3, 4 and 5 3. On-the-job training to the NF on operational issues 4. Developing internal procedures of the NF for Components 3, 4 and 5 5. Thematic training for the NF and other relevant beneficiary representatives, if applicable. 6. Development of an IT system used for the monitoring and management of IPA funds <p>COMPONENT 2 – SUPPORT TO THE PAO / CFCU</p> <ol style="list-style-type: none"> 1. Support the PAO /CFCU in organizational and operational activities and upgrading of internal procedures within the CFCU and the relating PIUs headed by the SPOs 2. Assist the CFCU in quality control of procurement and financial documents 3. Developing internal procedures of the CFCU for Component 3 and 4, in case the CFCU shall act as an IA under IPA Component 3 and 4 4. Thematic training for the CFCU staff and other relevant beneficiary representatives <p>COMPONENT 3 – SUPPORT TO THE NIPAC/Strategic Co-ordinator</p> <ol style="list-style-type: none"> 1. Assistance to the NIPAC/Strategic Co-ordinator and other relevant bodies in monitoring of pre-accession programmes 2. Setting up a national evaluation system 3. Assistance to the NIPAC/Strategic Co-ordinator and other relevant bodies in the communication and information process and promotion of visibility of EU assistance 4. Thematic training to NIPAC/Strategic Co-ordinator and other relevant bodies on programming, monitoring and evaluation processes, in particular as regards IPA Components 3 and 4. 	<p>Components 1- 4:</p> <ul style="list-style-type: none"> - Service contract No 1 for TA - 2,000,000 EUR, 100% IPA contribution <p>Component 5:</p> <ul style="list-style-type: none"> - Service contract No 2 for national compliance assessment; 170,000 EUR, 100% national contribution <p>Component 6:</p> <ul style="list-style-type: none"> - Supply contract No 3 for supply of IT equipment; 130,000 EUR, 100% national contribution 	<p>2,000,000 EUR – IPA contribution 300,000 EUR – National contribution</p>	<ul style="list-style-type: none"> • Commitment for IPA accreditation process • Commitment for understanding of IPA implementation requirements • A pro-active attitude of the institutions involved • Sufficient staffing / low staff turn over • Adequate staff workloads and willingness to release employees for participation in training activities. • Retention of trained staff in public administration

<p>COMPONENT 4 – SUPPORT TO THE CHU</p> <ol style="list-style-type: none"> 1. Assessment of the current capacity for internal audit and financial management control; 2. Introducing of FMC incl. developing methodology and manuals, establishment of training programmes and training, introduction of internal rules; 3. Strengthening Internal Audit - Reviewing internal auditors' manual for compliance with EU practice; Training program and Training; development of strategic, annual and individual audit plans, performing field audits and generating audit reports in 5 selected institutions; Establishment of internal auditors certification procedure; Examination and certification of internal auditors 4. Training and on-going support to the CHU of the Ministry of Finance to review competently the qualitative functioning of the financial management and control and internal audit of public sector entities, to improve the work methodologies and working standards and report on functioning of the internal control system. <p>COMPONENT 5 – NATIONAL COMPLIANCE ASSESSMENT Review</p> <p>COMPONENT 6 – SUPPLY OF IT EQUIPMENT</p>			
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Annex 2- Indicative amounts in EUR of IPA funds contracted and disbursed per quarter over the full duration of Programme

Contracted	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Contract 1	2,000,000									
Cumulated	2,000,000									
Disbursed	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Contract 1		600,000		200,000	200,000	200,000	200,000	200,000	200,000	200,000
Cumulated	0	600,000	600,000	800,000	1,000,000	1,200,000	1,400,000	1,600,000	1,800,000	2,000,000

Contract 1 will be a fee-based contract for 24 months.

Contract 2 and contract 3, respectively, will be tendered according to the national rules and regulations.

Annex 3 - Reference to laws, regulations and strategic documents:

- Constitution of Montenegro, Official Gazette of Montenegro No.1/2007;
- The Law on the Implementation of Constitution of Montenegro (Official Gazette No. 1/2007)
- Law on Public Procurement, Official Gazette of Montenegro No. 46/2006
- Law on Accounting and Auditing, Official Gazette of Montenegro No. 69/05
- Law on Budget
- Information on Establishment of Decentralized Implementation System in Montenegro, adopted by the Government of Montenegro in February 2008
- Law on PIFC adopted by the Parliament in November 2008. .
- SAA
- National Program for Integration
- Action Plan for the Implementation of the European Partnership
- European Partnership (Section 2.3)
- MIPD 2009-2011 (Section 2.4)
- COMMISSION REGULATION (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA)
- COUNCIL REGULATION (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)
- COUNCIL REGULATION (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.

Annex 4- Description of the Institutional framework

Institutional framework with regard to DIS system:

NAO/NF and PAO/CFCU, as key beneficiaries, are in charge of implementation and monitoring of this project. In implementation and monitoring of this project are involved partners, as well: NIPAC, Strategic Coordinator, SPOs, PIUs, and Internal Audit Units.

The Competent Accrediting Officer (CAO):

In the Government of Montenegro, CAO is Minister of Finance.

The CAO is responsible for issuing, monitoring and suspending or withdrawing the accreditation of the national authorizing officer (NAO) both

- as the head of the national fund bearing overall responsibility for the financial management of EU funds in Montenegro and being responsible for the legality and regularity of the underlying transactions;
- With regard to the NAO's capacity to fulfil the responsibilities for the effective functioning of management and control systems under IPA.

The accreditation of the NAO shall also cover the national fund (NF).

The CAO shall notify the Commission of the accreditation of the NAO and shall inform the Commission of any changes regarding the accreditation of the NAO. This includes the provision of all relevant supporting information required by the Commission.

Prior to accrediting the NAO, the CAO shall satisfy himself that the applicable requirements set out in Article 11 of the IPA Implementing Rules are fulfilled. This includes the verification of the compliance of the management and control system set up by the Beneficiary for effective controls in at least the areas set out in the Annex to the IPA Implementing Regulation (accreditation criteria). This annex provides for the following overall requirements:

- Control environment (establishment and management of the organization and the staff) comprising ethics and integrity policies, irregularity management and reporting, staff planning, recruitment, training and appraisal including sensitive post management, sensitive functions and conflicts of interest, establishment of legal bases for bodies and individuals, formal establishment of accountability, responsibility, delegated responsibility and any necessary related authority for all tasks and positions throughout the organization);
- Planning and risk management comprising risk identification, assessment and management, objective setting and allocation of resources against objectives, planning of the implementation process;
- Control activities (implementation of interventions) comprising verification procedures, procedures for supervision by accountable management of tasks delegated to subordinates, including annual statements of assurance from subordinate actors, rules for each type of procurement and calls for proposals, procedures including checklists for each step of procurement and calls for proposals, rules and procedures on publicity, payment procedures, procedures for monitoring the delivery of co-financing, budgetary procedures to ensure the availability of funds, procedures for continuity of operations, accounting procedures, reconciliation procedures, reporting of exceptions, amongst others exceptions to normal procedures approved at appropriate level, unapproved exceptions and control failures whenever identified, security procedures, archiving procedures, segregation of duties and reporting of internal control weaknesses;

- Monitoring activities (supervision of interventions), comprising internal audit with handling of audit reports and recommendations, evaluations;
- Communication (ensuring all actors receive information necessary to fulfil their role) comprising the regular coordination meetings between different bodies to exchange information on all aspects of planning and implementation and the regular reporting at all appropriate levels on efficiency and effectiveness of internal control.

Furthermore, it is necessary to add that, in the current phase, the responsibility of CAO is the coordination of the entire process of acquiring the accreditation for introducing DIS. Its basic task will be monitoring of the implementation of the Action Plan (Annex to the Information), as well as the improvement of work and removing shortcomings in the process of decentralization.

The National Authorizing Officer (NAO):

The NAO is appointed by the Government of Montenegro. He is a high-ranking official in the Government of Montenegro, precisely deputy minister for Treasure, within Ministry of Finance.

The NAO shall fulfil the following functions and assume the following responsibilities:

- a) As the head of the National fund, bearing overall responsibility for the financial management of EU funds in Montenegro and being responsible for the legality and regularity of the underlying transactions. The NAO shall in particular fulfil the following tasks as regards these responsibilities:
 - providing assurance about the regularity and legality of underlying transactions;
 - drawing up and submitting to the Commission certified statements of expenditure and payment applications; he shall bear overall responsibility for the accuracy of the payment application and for the transfer of funds to the operating structures and/or final beneficiaries;
 - verifying the existence and correctness of the co-financing elements;
 - ensuring the identification and immediate communication of any irregularity;
 - making the financial adjustments required in connection with irregularities detected, in accordance with Article 50 of the IPA Implementing Regulation;
 - Being the contact point for financial information sent between the Commission and the Beneficiary.
- b) Being responsible for the effective functioning of management and control systems under IPA. The NAO shall in particular fulfil the following tasks as regards these responsibilities:
 - being responsible for issuing, monitoring and suspending or withdrawing the accreditation of the operating structures;
 - ensuring the existence and effective functioning of systems of management of assistance under IPA;
 - ensuring that the system of internal control concerning the management of funds is effective and efficient;
 - reporting on the management and control system;
 - ensuring that a proper reporting and information system is functioning;

- following-up the findings of audit reports from the audit authority, in accordance with Article 18 of this Framework Agreement and Article 30(1) of the IPA Implementing Regulation;
- Immediately notifying the Commission, with a copy of the notification to the CAO, any significant change concerning the management and control systems.

As corollary to the responsibilities under a) and b) above, the NAO shall establish an Annual Statement of Assurance as defined in Article 17 of this Framework Agreement which shall include:

- a) A confirmation of the effective functioning of the management and control systems;
- b) A confirmation regarding the legality and regularity of the underlying transactions;
- c) Information concerning any changes in systems and controls, and elements of supporting accounting information.

If the confirmations regarding the effective functioning of the management and control systems and the legality and regularity of underlying transactions referred to in points (a) and (b) are not available, the National Authorizing Officer is obliged to inform the European Commission, with a copy submitted to the Competent Accrediting Officer, of the reasons and potential consequences as well as of the actions being taken to remedy the situation and to protect the interests of the Community.

PAO/Operating structure

An operating structure is established to deal with the management and implementation of assistance under the IPA. The operating structure is a body or a collection of bodies within the administration of Montenegro.

In the sense of Operating structure, there is implementing agency within Ministry of Finance-Central Financing and Contracting Unit (CFCU) responsible for management and implementation of projects under first two IPA components, as well as, SPO units within all line ministries. The head of in Operating structure is PAO, who is at the same time coordinator of CFCU.

The operating structure is responsible for managing and implementing the programme or programmes concerned in accordance with the principle of sound financial management. For those purposes, it carries out a number of functions that include:

- drafting the annual or multi-annual programmes;
- monitoring programme implementation and guiding the work of the sectoral monitoring committees as defined in Article 36(2) of the Framework Agreement and Article 59 of IPA Regulation, notably by providing the documents necessary for monitoring the quality of implementation of the programmes;
- drawing up the sectoral annual and final implementation reports defined in Article 38(1) and (2) of the Framework Agreement and Article 61(1) of IPA Regulation and, after their examination by the sectoral monitoring committee, submitting them to the Commission, to the National IPA Coordinator and to the National Authorising Officer;
- ensuring that operations are selected for funding and approved in accordance with the criteria and mechanisms applicable to the programmes, and that they comply with the relevant Community and national rules;
- setting up procedures to ensure the retention of all documents related to costs and audit, required to ensure an adequate audit trail;

- arranging for tendering procedures, grant award procedures, the ensuing contracting, and making payments to, and recovery from, the final beneficiary;
- ensuring that all bodies involved in the implementation of operations maintain a separate accounting system or a separate accounting codification;
- ensuring that the National Fund and the National Authorising Officer receive all necessary information on the procedures and verifications carried out in relation to expenditure;
- setting up, maintaining and updating the reporting and information system;
- carrying out verifications to ensure that the expenditure declared has actually been incurred in accordance with applicable rules, the products or services have been delivered in accordance with the approval decision, and the payment requests by the final beneficiary are correct. These verifications cover administrative, financial, technical and physical aspects of operations, as appropriate;
- ensuring internal audit of its different constituting bodies;
- ensuring irregularity reporting;
- ensuring compliance with the information and publicity requirements.

The National IPA Coordinator (NIPAC):

The NIPAC in the Government of Montenegro is Deputy Prime Minister for EU integration. According to the IPA Implementing Regulation NIPAC is responsible for:

- b) He shall ensure the overall coordination of assistance under IPA.
- c) The NIPAC shall ensure partnership between the Commission and Montenegro and close link between the general accession process and the use of pre-accession assistance under IPA. He shall bear the overall responsibility for
 1. the coherence and coordination of the programmes provided under IPA;
 2. the annual programming for the Transition Assistance and Institution Building Component at national level;
 3. The co-ordination of the participation of the Beneficiary in the relevant cross-border programmes both with Member States and with other Beneficiary countries, as well as the trans-national, interregional or sea basins programmes under other Community instruments. The NIPAC may delegate the tasks relating to this co-ordination to a cross-border co-operation co-ordinator.
- d) The NIPAC shall draw up and, after examination by the IPA monitoring committee, submit to the Commission the IPA annual and final reports on implementation as defined in Article 38 of this Framework Agreement and in Article 61(3) of the IPA Implementing Regulation. He shall send a copy of these reports to the NAO for verification.

One of the opening steps in the process of introducing DIS is appointment of the National IPA Coordinator (NIPAC). In Montenegro, the Deputy Prime minister for the European Integration has a role of NIPAC (the decision brought within the period of the existence of the Ministry for International Economic Relations and the European Integration) and he/she chairs the Commission for the European Integration which coordinates IPA and supervises SEI.

Institutional framework with regard to financial management and control of public funds:

In order to strengthen institutional capacities for the development of the public internal financial control (PIFC) system, as well as to implement the Action Plan for the implementation of the PIFC Strategy, the Sector for the harmonization of financial management and control and internal audit (CHU – Central Harmonization Unit) has been

established within the Ministry of Finance. The CHU consists of two departments: the Department for Financial Management and Control Harmonization and the Department for Internal Audit Harmonization. The sector is responsible for implementing development activities of central coordination and harmonization of the public internal financial control system.

In November 2008, employees who had performed centralized internal audit tasks up till then were reassigned to the CHU. In order to initiate the successful implementation of the Law on Public Internal Financial Control System, strengthening the capacity of the CHU to coordinate the establishment and development of this system throughout the public sector will be a priority need. In addition, continuous capacity building is needed for the independent internal audit units and for establishing and developing financial management and control in public sector institutions. Building such capacity would strengthen the financial management and control system, internal audit and reporting on the use of funds from national sources and EU funds in public sector institutions of Montenegro.

Annex 5- Details per EU funded contract

The project will be implemented by key DIS functions appointed by the Government of Montenegro, according to the decisions on appointment of key functions and Information on establishment of DIS system. The key beneficiaries will be NAO/NF and PAO/CFCU, and partners in the project are SPOs, PIUs, NIPAC and Strategic Coordinator and the other bodies involved in the process.

The project will be implemented on the basis of three separate contracts, with clear interlinkages.

The fee-based contract (No 1.1) for a period of 24 months will relate to TA services which will provide support to IPA bodies in performing their activities and duties within components 1-4 of this project.

According to activities envisaged for components of this project 1-4, through TA service contract is engaged seven (7) long term key experts as follows:

- Key expert 1 – TL in charge of horizontal coordination
- Key expert 2 - Advisor NF/NAO
- Key expert 3 - Advisor CFCU/PAO
- Key expert 4 - Financial Advisor
- Key expert 5 - Monitoring Advisor
- Key expert 6 - Internal Audit Advisor
- Key expert 7 - FMC Advisor

In addition during this project will work several short term experts, as well as support stuff who will be engaged in the course of the whole duration of the project. Furthermore, it is envisaged to organize numerous trainings and presentation events and related to that issuing of numerous publications. In the context of trainings for civil servants, working on DIS and Internal Audit issues, it is foreseen to organize a number of study visits in countries that have been dealt with similar issues.

The service contract (No.2) should follow the results of the first contract (No 1) and will relate to engagement of an external audit company for carrying out national compliance assessment review of the financial management and control system set up with regard to IPA Components 3 and 4. The contract 2 for a national compliance assessment will be financed from national co-financing sources amounting € 0.17 million.

Moreover, within this project it is foreseen to supply of IT equipment necessary for the new employees in IPA bodies involved and for improving the efficiency of daily performance). In order to support the process of management and monitoring of using of EU and national funds, this project provides the opportunity to establish proper IT system, which will enable update and quality information on the funded projects. In that sense, for the purpose of the supply contract (No 3) the Ministry of Finance makes available co-financing funds amounting € 0.13 million.