



**MONTENEGRO**

**AUDIT AUTHORITY**

No: 3016-06-147/1

**ANNUAL AUDIT ACTIVITY REPORT**

**OF THE AUDIT AUTHORITY**

**FOR PROGRAMME**

**AGRICULTURE AND RURAL DEVELOPMENT OF**

**MONTENEGRO - IPARD II**

FOR THE PERIOD FROM 01 JANUARY UNTIL  
31 DECEMBER 2020

Podgorica, March 15<sup>th</sup>, 2021

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## 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 (hereinafter AA) 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 Law on Audit of EU funds, the AA is functionally and operationally independent of all of other stakeholders involved in the system of EU funds management and control.

According to the Law, the AA shall be managed by the Auditor General. Currently, the position of the Auditor General is vacant and consequently the AA is managed by the Deputy of the Auditor General, Ms. Nataša Simonović, which was appointed by the Government of Montenegro on December 19<sup>th</sup>, 2019.

The Annual audit activity report (hereinafter AAAR) has been prepared solely by the Audit Authority of Montenegro, Department for audit of agriculture and rural development, following the Annex D "Annual Audit Activity Report" of the FWA as well as relevant EC Guidelines. List of AA team members that were involved in the preparing the AAAR is presented in the following table:

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant / certified auditor	Part of the AAAR
			General	IPARD			
AA	Luka Đukanović	Head of Department for audit of the program of agricultural and rural development	8 years and 10 months	8 years and 10 months	P	Certified Auditor/CIA	All members of the AA's IPARD team were involved in the preparation of this Report and the
	Rina Mučaj Demirović	Authorised Auditor	7 years and 9 months	6 years and 9 months	P	Certified auditor/ State auditor	
	Maja Klikovac	Authorised Auditor	5 months <sup>1</sup>	5 months	P	Certified auditor/ CIPFA,	

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<sup>1</sup> Maja Klikovac started to work in the AA on 1<sup>st</sup> October 2020. Before her engagement in the AA, she had worked for 7 years in accounting and financing affairs.

						<i>State auditor</i>	<i>work was coordinated by the Head of the Department</i>
	<i>Marko Tomčić</i>	<i>Junior Auditor</i>	<i>2 years and 11 months</i>	<i>2 years and 11 months</i>	<i>P</i>	<i>Certified auditor/ State auditor</i>	

## 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 AAAR is financial year and covers the period from 1<sup>st</sup> January to 31<sup>st</sup> December 2020.

The audit activities performed in the audit period for the financial year were governed by the Audit Strategy. Audit period began on June 1<sup>st</sup>, 2020<sup>2</sup>, and ended on 4<sup>th</sup> March 2021 when the last audit engagement report was issued together with the finalization of activities on verification of the management declaration, audit of annual accounts and finalization of follow up activities.

For the reference period the following audit activities were performed: System Audit, Audit of sampled transactions/operations, Audit of Accounts including verification of AMD and Follow-up activities.

**In the context of system audit**, in accordance with the Audit Strategy 2020-2022, AA performed system audit with objective to determine whether the Management, control and supervision system (hereinafter MCS) established in the IPARD Agency(hereinafter IA), National Fund Division (hereinafter NFD) and NAO support office, for financial year 2020, is in line with the requirements set out in the Implementing Regulation 447/2014, Framework Agreement, Sectoral Agreement, Financing Agreement and IPARD Programme as well as other underlying regulations and to verify the efficient and effective functioning of the MCS. System Audit of MCS was based on written procedures (test of procedures) and compliance testing<sup>3</sup> (test of controls) in Directorate for Management structure (NAO/SO and NFD) and IPARD Agency. Following audit areas were examined:

No	Scope of the audit		
	Assessment criteria and sub criteria (ICFR) (AC)	Auditee	Process / sub-process
1.	1(b)	NAO/SO, NFD, IA	Supervision by management of tasks delegated to subordinates

<sup>2</sup> Delay due to the situation with the pandemic COVID-19

<sup>3</sup> For the compliance testing, AA sampled 12 transactions using dual testing purpose as explained in section 4.2 (2) of this Report

2.	2(c)	NAO/SO, NFD, IA	Fraud Risk
3.	2(d)	NAO/SO, NFD, IA	Identification and assessment of changes affecting the system of internal controls
4.	3(a)	NAO/SO, NFD, IA	Selection and development of control activities
5.	3(b)	NAO/SO, NFD	Security control activities
6.	4(a)	NAO/SO, NFD, IA	Information to support functioning of internal controls
7.	4(b)	NAO/SO, NFD, IA	Internal communication
8.	4(c)	NAO/SO, NFD, IA	External communication
9.	5(a)	NAO/SO, NFD, IA	On-going and specific monitoring
10.	5(b)	NAO/SO, NFD, IA	Assessment, recording and communication of internal control deficiencies

**In the context of audit of operational transactions**, in accordance with the Audit Strategy 2020-2022, AA performed test of transactions with objective to confirm the legality and regularity of declared expenditures in financial year 2020. The AA conducted three audits of operation, one related to the first and second quarter (D1 – Q1 and Q2), second related third quarter (D1 – Q3) and third audit of operation related to expenditure declared in the last quarter of FY 2020 (D1 – Q4).

The total gross amount of public IPARD II expenditure (divided into the EU and the national part) declared to the European Commission for the reference period FY 2020 (in accordance with the Annual Declaration (Form D2)) is presented in the table below:

Seq . No	Public Call	Quar ter in 2020	Number of executed payment s in quarter	Amount of executed payments (Public contribution) €	Amount of executed payments (EU/IPA part) €	Amount of executed payments (national part) €
1	2	3	4	5	6	7
1	First call M1	Q1	37	412.610,39	309.457,74	103.152,65
2	First call M1	Q2	57	763.532,25	572.649,12	190.883,13
3	First call M1	Q3	41	2.196.635,82	1.647.476,79	549.159,03
	First call M3		1	159.159,29	119.369,47	39.789,82
4	First call M1	Q4	23	778.792,80	584.094,56	194.698,24
	First call M3		1	276.283,00	207.212,25	69.070,75
	Second call M3		1	23.332,04	17.499,03	5.833,01
		Total	161	4.610.345,59	3.457.758,96	1.152.586,63

Taking into consideration the population size, i.e. number of executed payments in FY 2020, the AA applied non-statistical sampling in order to determine the sample size for operational transactions.

According to Guideline No 2 IPARD II Audit strategy and considering the assessment made of the Internal Control System of the IPARD Agency ("Works"), the AA determined the minimum sample size as 20% of the population size, i.e.  $161 \times 20\% \approx 33$  transactions to be tested.

**In the context of audit of accounts**, in accordance with the Audit Strategy 2020-2022, the AA performed comprehensive reconciliation and review of accounting records and financial statements with objective to confirm the completeness, accuracy and veracity of the annual accounts.

**In the context of follow up**, in accordance with the Audit Strategy 2020-2022, the AA performed follow up on recommendations<sup>4</sup> issued in AAAR for FY 2019 and AAAR for FY 2018, as well as on the remaining recommendations from DG AGRI Reports.

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

The AAAR report covers the Programme for the Development of Agriculture and Rural Areas in Montenegro (hereinafter: IPARD II Programme) for period 2014-2020 within the policy area 'Agriculture and Rural Development' of the Instrument for Pre-Accession Assistance (IPARD II).

The IPARD II Programme for Agriculture and Rural Development for Montenegro for 2014-2020 was adopted by Commission Implementing Decision C (2015)5074 from 20<sup>th</sup> July 2015, modified by EC Decision No (2019)3031038 from 7<sup>th</sup> May, 2019 and the total indicative costs for the implementation, including EU, national and private contributions, amount to 86.8 € million for the period 2014-2020, while the indicative contribution of the EU is 39€ million.

The IPARD II Management and control supervision system has been entrusted with budget implementation tasks under the following measures of the IPARD II Programme:

- Investments in physical assets of agricultural holdings;
- Investments in physical assets concerning processing and marketing of agricultural and fishery products.

Structures and bodies being part of the Management and control supervision system for IPARD II Programme are, as follows:

- The National IPA Coordinator (hereinafter NIPAC) – **Ms Zorka Kordić** – appointed on 7<sup>th</sup> December 2020 as State Chief Negotiator within the Government of Montenegro (European Integration Office). The NIPAC is responsible for strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance;
- The National Authorizing Officer (hereinafter NAO) – **Mr Janko Odović** - State Secretary within Ministry of Finance appointed on 25<sup>th</sup> February 2021 as NAO. The NAO has overall responsibility for the financial management of IPA II assistance in Montenegro and for

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<sup>4</sup> Presented in detail in Section 7.1 of this Report

ensuring the legality and regularity of expenditure. The NAO is responsible for the management of IPA II accounts and financial operations and the effective functioning of the internal control systems for the implementation of IPA II assistance.

- The Management Structure (hereinafter DMS) – Directorate for Management Structure within Ministry of Finance and Social Welfare, managed by **Ms Ivana Maksimović** as General Director and Deputy of NAO, appointed on November 16<sup>th</sup>, 2017 as acting director and on April 26<sup>th</sup>, 2018 as General Director on five-year period. The DMS consists of two separate divisions, which are formally established on October 25<sup>th</sup>, 2017:
  - The National Fund Division (hereinafter NFD) – **Ms Žana Jovanović** - Head of NFD from April 1<sup>st</sup>, 2019. The NFD is in charge of tasks of financial management of IPA II assistance, under the responsibility of the NAO. The NFD is responsible for holding and organizing the central IPA bank accounts, requesting funds and receiving all payments from the Union budget, authorizing the transfer of such payments to the operating structures or to the recipients, returning funds to the Union budget following recovery orders issued by the Commission, supporting NAO in preparing financial reporting to the Commission and operating computer based accrual accounting system that provides accurate, complete and reliable information in a timely manner.
  - The NAO support office (hereinafter NAOSO) – **Mr Velibor Damjanović** – Head of NAOSO from April 1<sup>st</sup>, 2019. The NAO support office is accountable to the NAO and assists the NAO in fulfilling defined tasks
- The Operating structure consists of:
  - Managing Authority (hereinafter MA) – **no appointed person at the moment**<sup>5</sup>. The mandate of the **Mr Darko Konjević**, Director General of the Directorate for rural development within the Ministry of Agriculture, Forestry and Water Management terminated on personal request, on February 11<sup>th</sup>, 2021. The MA is responsible for preparation, monitoring of implementation of IPA II rural development programmes and evaluation.
  - IPARD Agency (hereinafter IA) – **Ms Danka Perović** – General Director of the Directorate for payments within the Ministry of Agriculture, Forestry and Water Management was appointed on November 28<sup>th</sup>, 2019 as acting general director and on June 25<sup>th</sup>, 2020 on five-year period as General Director. The IA is responsible for the implementation of measures under indirect management and for ensuring the legality and regularity of the expenditure incurred in the implementation.

Regarding the IT security policy, the Government of Montenegro on the session held on March 19<sup>th</sup>, 2020 adopted the Proposal of Action Plan ISO 27002 and engaged the Ministry of Public Administration to establish Steering Committee and Operational team in order to ensure monitoring of implementation of IT Action Plan ISO 27002 for all institutions involved in implementation of IPA. The implementation of the Action Plan is foreseen for the period 2020 - 2022 with activities requiring the involvement of an

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<sup>5</sup> According to the Substitution plan of the MA, Head of the MA is substituted by the Head of Department for Monitoring, Evaluation and Reporting. This position is covered by Mr Enis Gjokaj at the moment.

independent consulting institution with specific experience in the required field. Due to COVID-19 outbreak, some activities are postponed.

As regards the IA, it is already implementing security policy system under high level standards in respect to data and information management and possesses IT equipment which maintains system at the operational level.

AA would like to emphasize that ICS within IPARD structure in Montenegro doesn't rely much on IT solutions and all main controls, communications within and between management and operating structure as well as communication with the recipient are paper based. In line with the above, AA is of the opinion that the IT system doesn't present a significant part of the control functions. However, having in mind constant improvement in procedures and increasing amount of expenditures as well as preparation for IPARD III Programme, AA encourages implementation of high IT solutions and appropriate security standards in order to increase efficiency in implementation of IPARD Programmes.

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

As defined in Clause 5(3)(a)(b) of the Annex A of the FWA, in order to prepare the AAAR and to 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 and has carried out a follow-up to assess the time proportional to implementation of action plans prepared on the basis of audit recommendations.

The AAAR is prepared following the Annex D to the FWA and sets out, inter alia, any deficiencies found in the management, control and supervision systems and any corrective measures taken or planned by the NAO, management structure and/or the operating structures concerned, and details of any substantial changes in the management and control system. Steps taken for preparation of the report are based on requirements defined in section 5 of Guideline 2 by defining audit scope and objectives, establishing audit universe, identifying and assessing risks of material misstatements as well as defining audit approach and preparing plan for every engagement related to the FY 2020.

In accordance with Art.59 (2) of the Framework Agreement between the Commission and Government of Montenegro, for the Programme IPARD II the NAO has submitted the Annual Management Declaration and Annual financial report for FY 2020<sup>6</sup> to the Commission with a copy to the NIPAC and AA.

With a view to drawing up an audit opinion, Audit Authority assessed results of audit activities from the performed audits of management and control system, audits on legality and regularity of transactions, audits of completeness and accuracy of annual accounts and assessed the consistency of the management declaration with regard to performed audit work.

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<sup>6</sup> On 15<sup>th</sup> February 2021 (Ref. 01-2053)



Based on the available information and results presented in AAAR, the AA issued the Annual audit opinion on the annual financial reports or statements and the underlying annual accounts for FY 2020, following the Guideline 8 and form defined by Annex E of the FWA.

As explained in section above, ICS within IPARD structure in Montenegro doesn't rely much on IT solutions and all main controls, communications within and between management and operating structure as well as communication with the recipient are paper based. For the purpose of audit work related to information system security, AA developed comprehensive questionnaire and tested compliance of IA with the basic ISO 27002 principles. This work was carried out based on DG AGRI request for follow up of DG AGRI recommendations as this ICFR "3(b)" wasn't envisaged for IA within audit strategy related to FY 2020. Results have shown that IA, as unique implementing body, which performs main and most important controls related to IPARD II Programme, maintains high security standards and respects basic principles of ISO 27002. However, AA identified deficiencies related to staff dealing with information system security presented in section 7.1 of this Report.

AA didn't rely on the work of Internal Audit, third party subcontracted auditors, specialists and experts, third party certificates from bodies accredited for the chosen international standard, etc. Considering that IA engaged an external audit company for the audit of information system security (signing of contract is expected by the end of March), AA will consider results of audit during engagements for FY 2021.

## **2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS**

### **2.1 Details of any substantial changes in the management and control system, 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**

AA would like to emphasize that the NAO has issued the AMD for FY 2020 with a reservation regarding significant change of the IPA institutional and organisational framework in the 2020 caused by the formation of the new Government of Montenegro.

When it comes to the IPARD II Programme and respective structures and bodies constituting MCS, AA can confirm that during FY 2020, there were no significant organisational changes in the sense of changing, replacing, or merging institutions and other parties constituting MCS, neither any of the functions originally trusted were delegated or externalised during FY 2020. However, having in mind that formation of the new Government started from 4<sup>th</sup> December 2020 and is still ongoing, particularly adoption of new Rulebooks on internal organisation and systematization in all bodies constituting MCS and consequently nominations of key staff, AA will further monitor possible changes in organisational structure and accordingly act in line with requirements and obligations from relevant regulations.

When it comes to the changes in the procedures and legislation of any of the IPARD bodies, changes are presented in the following tables.

IPARD body and the specific function concerned	Brief description of the change	Assessment of the change by NAO (substantial or non—substantial and the date)	Impact on the MCS: low – L, medium – M or high - H	Date of notification to		Date of approval by the EC	Date of entry into force
				AA	EC		
All IPARD II institutions – re-construction and re-organisation of the institutional framework	The new Government of Montenegro, on December 7 <sup>th</sup> , 2020 adopted a new Decree on the organization and manner of work of the entire state administration. Consequently, there were organisational changes by which the Ministry of Agriculture and Rural Development was renamed into the Ministry of Agriculture, Forestry and Water Management, while the Ministry of Finance took over activities regarding the social welfare policy and now functions as Ministry of	Substantial 07/12/2020	M	15/02/2021 <sup>7</sup>	15/2/2021	N/A	7/12/2020

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<sup>7</sup> AMD 2021 (Ref.01-2053)

	<i>Finance and Social Welfare. In accordance to that, adoption of new Rulebook on internal organisation and systematisation is obliged for the referent ministries</i>						
<i>OS and DMS procedures of work</i>	<i>Adoption of Manual of Procedures v. 2.0 for IPARD II Programme - improvement of the procedures of work based on experience, audit recommendations, alignment with EU and national regulations, etc.</i>	<i>Substantial 31/01/2020</i>	<i>M</i>	<i>13/02/2020</i>	<i>20/09/2019</i>	<i>22/11/2019</i>	<i>31/1/2020 OS 27/1/2020 DMS</i>
<i>OS procedures of work</i>	<i>Adoption of Manual of Procedures v. 2.1 for IPARD II Programme- introduction of the pre -financing (M3).</i>	<i>Substantial 11/06/2020</i>	<i>M</i>	<i>23/06/2020</i>	<i>16/06/2020</i>	<i>N/A</i>	<i>19/06/2020</i>
<i>Sectoral Agreement</i>	<i>Entry into force of the amended Sectoral Agreement</i>	<i>Substantial<sup>8</sup></i>	<i>H</i>	<i>17/11/2020</i>	<i>N/A</i>	<i>12/10/2020</i>	<i>05/11/2020</i>
<i>IPARD II Programme</i>	<i>Adoption of v. 1.3 of the IPARD II Programme</i>	<i>Substantial 20/11/2020<sup>9</sup></i>	<i>M</i>	<i>27/11/2020</i>	<i>27/11/2020</i>	<i>28/01/2021</i>	<i>02/02/2021</i>

<sup>8</sup> The amended Sectoral Agreement was approved by both parties (EC and MNE) on 5<sup>th</sup> November 2020. However, according to national procedures, ratification of the Law on Sectoral agreement is pending

<sup>9</sup> Monitoring Committee for the IPARD II Programme for Montenegro considered and approved the proposal to amend the IPARD II Programme.

The Following table presents key staff changes during the FY 2020:

**NIPAC**

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointment of the new person: permanent (P) or temporary (T)	Date of the approval by NAO	Date of notification to		Impact of the change: low - L, medium – M or high - H				
		From	Until	AA	EC			From			Until				AA	EC	
NIPAC	Mr Aleksandar Drljević - Until return of the Ms Ivana Glišević Đurović who is on maternity leave	30/04/2020	7/12/2020	14/05/2020	14/05/2020	Ms Zorka Kordić	07/12/2020	Until return of the Ms Ivana Glišević Đurović who is on maternity leave	T	N/A	26/01/2021	26/01/2021	L				

**NAO**

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointment of the new person: permanent (P) or temporary (T)	Date of the approval by NAO	Date of notification to		Impact of the change: low - L, medium – M or high - H
		From	Until				From	Until					
		AA	EC				AA	EC					
NAO	Mr Nemanja Katnić	21/09/2017	15/10/2020	03/11/2020	03/11/2020	Mr Janko Odović	25/02/2021	4-year period	T	N/A	05/03/2021	05/03/2021	H

## MA

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointment of the new person: permanent (P) or temporary (T)	Date of the approval by NAO	Date of notification to		Impact of the change: low - L, medium - M or high - H
		From	Until	AA	EC		From	Until			AA	EC	
Head of the MA	Mr Darko Konjević	27/02/2020	11/02/2021	15/2/2021	15/2/2021	-- <sup>10</sup>	--	--	--	--	--	--	H

## IA

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointment of the new person: permanent (P) or temporary (T)	Date of the approval by NAO	Date of notification to		Impact of the change: low - L, medium - M or high - H
		From	Until	AA	EC		From	Until			AA	EC	
Head of the IA	Mr Blagota Radulović	10/07/2014	25/06/2019	28/11/2019	28/11/2019	Ms Danka Perović	25/06/2020 <sup>11</sup>	(5-year mandate)	T	N/A	15/07/2020	15/07/2020	H

<sup>10</sup> According to the Substitution plan, Head of the MA is substituted by the Head of Department for Monitoring, Evaluation and Reporting. This position is covered by Mr Enis Gjokaj at the moment,

<sup>11</sup> On the session held on 28<sup>th</sup> November 2019, Government of Montenegro gave its consent to the resignation of Mr Blagota Radulovic and on the same session Ms Danka Perovic was proposed and appointed as acting director until her appointment as general director of Directorate on 25<sup>th</sup> June 2020

The AA confirms that, in addition to all substantial changes, **the MCS remains in compliance with Article 7 of Regulation (EU) No 447/2014.**

**2.2 The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as the impact of these changes on the audit work are to be indicated**

Dates from which changes apply and dates of notification of the changes to the AA as well as impact of changes are presented in point 2.1

Considering requirement from Guideline 2 “Audit Strategy”, point 6.2, “the AA should indicate in the report whether any exception to the approved procedures was applied during the given year”, AA will use possibility to inform about exceptions in this part of report.

During financial year 2020 six exceptions were approved by the NAO, four of them for IPARD Agency and two for DMS, as listed below:

**IA**

1. DP-DEP-00-21 Decision for recovery of funds in case of overpayment/ wrongly executed payment; DP-DAP-00-24 Decision for recovery of funds; DP-DAP-00-24 -a Decision for recovery of funds in case of overpayment; DP -DEP -00 MoP, Chapter 5.4. Recovery of funds<sup>12</sup>.

Bearing in mind gained experience in the previous period regarding recovery of funds under other IPA programmes and in order to simplify procedures, according to approved exception, recovery of funds should be made to the MN-NF IPA account for IPARD Programme, opened in Central Bank, instead of on the Single Treasury Account. Relevant annexes are revised according to accepted exception.

2. DP-DPAP-00-20 Contract for allocation of funds (v.1.1); DP-DPAP-00-21 Checklist amendment; DP-DOSC-02-06 Checklist prior approval M3; DP-DOSC-00-09 Detail instruction checklist M3<sup>13</sup>.

Due to the new situation regarding COVID-19 pandemic and the measures of the Montenegrin National Coordination body, as well as according to the letter of DG AGRI (Ares (2020)2205599-23/04/2020), the IPARD Agency proposed the following exception, which was approved by the NAO:

- Amendment to the DP-DPAP-00-20a Contract for allocation of funds and DP-DPAP-00-21a Check list Amendment:
  - Prolongation of the term for finishing the investment and submission of the payment request in accordance with n+3 instead of n+2 rule (n is the date when the contract is signed with the recipient)- applicable for first public call for M1 and M3.

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<sup>12</sup> Deputy NAO approval on February 27<sup>th</sup> 2020

<sup>13</sup> Deputy NAO approval on February 27<sup>th</sup> 2020

- Amendment to the DP-DOSC-02-06a Checklist prior approval M3 and DP-DOSC-02-09a Detail instruction check list M3:
  - The applicant performs on the spot verifications prior to approval of the project (before contracting) instead of control team based on checklist prepared by the IA controllers. The applicants submit proofs as photos and/or video recording of all items listed on the Checklist – applicable for second call M3.
- 3. DP-DAB-00-02 Accounting main entries<sup>14</sup> - Amendment to referent annex (v.2.1) Accounting of main entries upgraded in regard to Decision for recovery of funds.
- 4. IPARD II Programme<sup>15</sup> - Amendment to contract template for allocation of funds and modification of CLs.

## **DMS**

- Arrangements to the process of issuance of the Annual Management Declaration for the year 2020 and temporary arrangements of the MoP chapters<sup>16</sup>;  
Assurance of the continuity of operations during period until official appointment of new state administration in relation to IPA OS bodies.
- Modifying AMD chapter of MoP and relevant annexes<sup>17</sup> - Improvement of procedures regarding issuance of the AMD.

The AA confirms that, all above listed exceptions are recorded and approved at the appropriate level and aim at the successful implementation of IPARD tasks. In addition, AA will take into account all exceptions during risk analysis and following audits.

## **3. CHANGES TO THE AUDIT STRATEGY**

AA confirms that the audit work was carried out as planned in the audit strategy.

## **4. SYSTEMS AUDITS**

### **4.1 Details of the bodies that have carried out system audit, including the audit authority itself**

The audit body that has carried out the system audits is Audit Authority of Montenegro. The AA, carried out audit work, following section 6 of Guideline 2, in order to assess the Internal Control Systems (ICS) of the IPARD bodies. The system audit was carried out solely by auditors of the Department for audit of the program of agriculture and rural development. The list of AA team members is presented below.

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<sup>14</sup> Deputy NAO Approval on June 30<sup>th</sup>, 2020

<sup>15</sup> Deputy NAO Approval on November 30<sup>th</sup>, 2020

<sup>16</sup> Deputy NAO Approval on December 22<sup>nd</sup>, 2020

<sup>17</sup> Deputy NAO approval on December 30<sup>th</sup>, 2020

There weren't any other bodies/persons involved in audit work for the annual acceptance of accounts including the follow-up of recommendations/audit findings from the previous year's acceptance of accounts.

During FY 2020 DG AGRI performed external audits for up-coming requests for entrustments of budget implementation tasks (EBIT) for measure 7 and provided relevant recommendations within letters Ares (2020) 2004695 from 09/04/2020 as well as Ares (2020) 4146723 from 06/08/2020. The AA performed audit on follow-up of DG AGRI's findings/recommendations related to EBIT and/or procedural modifications, i.e. on all outstanding recommendations, presented in section 7 of this Report.

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant / certified auditor	Type of audit work carried out by the body/person
			General	IPARD			
AA	Luka Đukanović	Head of Department for audit of the program of agricultural and rural development	8 years and 10 months	8 years and 10 months	P	Certified Auditor/CIA	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Rina Mučaj Demirović	Authorised Auditor	7 years and 9 months	6 years and 9 months	P	Certified auditor/ State auditor	ICFR 1(b) ICFR 2(d) ICFR 3(a)(viii) ICFR 3(a)(xi) ICFR 3(a)(xii) ICFR 5(a) ICFR 5(b)
	Maja Klikovac	Authorised Auditor	5 months	5 months	P	Certified auditor/ CIPFA, State auditor	ICFR 2(c) ICFR 3(a)(iv) ICFR 3(a)(vii)
	Marko Tomčić	Junior Auditor	2 years and 11 months	2 years and 11 months	P	Certified auditor/ State auditor	ICFR 3(a)(x) ICFR 3(b) ICFR 4(a) ICFR 4(b) ICFR 4(c)



#### 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	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2020 .- 31.12.2020 i.e. FY 2020	Programme for Agriculture and Rural development of Montenegro - IPARD II No CCI: 2014ME06I4NP001	Audit Authority of Montenegro	Directorate for Management Structure IPARD Agency	June – December 2020	System Audit encompassed DMS (National Fund and NAO Support Office) and IPARD Agency and the following audit areas were examined: • Supervision by management of tasks delegated to subordinates – (ICFR 1b); • Fraud risk – (ICFR 2c); • Identification and assessment of changes affecting the system of internal controls – (ICFR 2d); • Selection and development of control activities – (ICFR 3a); • Security control activities – (ICFR 3b); • Information to support functioning of internal controls – (ICFR 4a); • Internal communication – (ICFR 4b); • External communication – (ICFR 4c); • On-going and specific monitoring – (ICFR 5a); • Assessment, recording and communication of internal control deficiencies – (ICFR 5b).	1. Inadequate recording and reporting of irregularities; 2. Inefficiency in taking further steps in case of recipient under application ID number 18-01-1-0228; 3. Possible usage of the irrelevant Manual of Procedures version; 4. Deficiencies in the preparation of the AMD; 5. Lack of procedures for recording and monitoring of changes IA; 6. Vaguely defined retention period.	/	/	1.Open 2.Closed 3.Open 4.Closed 5.Open 6.Open

During reference period system audit was performed according to the plan and ICFR's presented in the audit strategy, which includes:

### **1) Test of procedures**

The audit was performed using the methodology prescribed in Manual of procedures for IPARD v.1.0 developed by the AA and based on the guideline 2 "Audit Strategy" issued by DG AGRI. The audit examined the set up and reviewed the documentation provided by the relevant bodies and the information that was available until the time of finalizing the report.

### **2) Compliance testing**

During FY 2020, under IPARD II Programme 2014-2020, IPARD Agency has continued with the process of implementation (signing of contracts and executing payments to recipients) of public calls published in FY 2018 (one call for applications for allocation of funds for measure 1, and one call for applications for allocation of funds for measure 3). From the beginning of IPARD II Programme, the IPARD Agency has published 5 public calls, two for Measure 1 and three for Measure 3<sup>18</sup>. At the moment of announcement of audit and preparation of engagement plan, regarding Measure 1, 225 contracts were signed in total amount of 11.260.849,29€, of which 1.176.142,64€ were paid in Q1 and Q2 of FY 2020 and there were no contracts signed for second public call, which was published on 24<sup>th</sup> February 2020 (extended till 19<sup>th</sup> August 2020). As regards Measure 3 for first public call 20 contracts were signed in total amount of 9.815.120,78 € and none of them was paid in Q1 and Q2 of FY 2020. Also, there wasn't any contract signed for second public call published on 4<sup>th</sup> September 2019 (extended till 20<sup>th</sup> December 2019).

Considering that during FY 2018 and 2019, AA performed comprehensive system audits, and the fact that there weren't any payments related to the new public calls and consequently under new version of procedures, AA decided to use possibility of dual-purpose testing. Since the substantive testing sample needs to be unbiased, for the dual-purpose testing, the AA firstly selected the substantive testing sample by a non-biased method (random) which covered payments declared in first two quarters (D1 – Q1 and D2 – Q2) and then, AA verified that some of the items selected for substantive testing were also suitable for compliance testing and using professional judgment chose 12 transactions for compliance testing. From the items selected for substantive testing, the AA made effort to draw the sample for compliance testing in order to cover a variety of transactions (different sectors, types and codes of investments) so the relevant key functions were assessed under different circumstances.

The AA took care about proper analysis and documented the results, so the different objectives for the two types of tests were clearly distinguished.

During compliance testing, AA identified two potential financial errors which are under ongoing assessment and there wasn't any error confirmed as financial error which would be considered as random error and consequently extrapolated.

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<sup>18</sup> Third call for Measure 3 is ongoing, deadline for sending applications is extended to 15<sup>th</sup> April, 2021

The compliance testing was performed using the methodology prescribed in Manual of procedures for IPARD v.1.0 developed by the AA and based on the guideline 2 “Audit Strategy” issued by DG AGRI.

To confirm the compliance of the IPARD Agency with the ICFR-3 Control activities, through compliance testing the AA performed different types of verifications, which among others included following:

- 1) Compliance test to confirm the functioning of controls and determine whether the undertaken activities are in compliance with the written working procedures and whether they have been performed in accordance with the set deadlines as well as to determine dynamics of the approval of applications process;
- 2) Compliance test to confirm eligibility of the recipients and investments;
- 3) Compliance test to confirm whether the templates and deadlines for issuing the documents by technical bodies have been respected.

The outcome of the compliance testing is summarized in the Final report of audit of operation related to the Q1 and Q2 of FY 2020.

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

For the purpose of detailed defining of the scope of the audit, during the preparation of Audit Strategy for period 2020-2022 the Audit Authority performed a detailed risk assessment to determine the bodies and priority processes in conducting system audit.

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),
- EC Guidance document on a common methodology for the assessment of management and control systems in Member States and
- DG AGRI Guideline 2 IPARD II audit strategy.

Risk assessment approach is applied in order to understand and select the high-risk areas for performing system audit. The AA carries out its own risk assessment to compose the annual audit plan of systems audit. The risk assessment results are used for prioritizing and selecting the bodies/processes/ICFR to be audited.

During risk assessment, risks were identified and considered at the authorities and process/ ICFR level. Specific inherent and control risk factors were assessed for each body and process/ICFR. Each risk factor, including inherent and control risks, was assessed as low, medium or high, considering both the significance and likelihood of the risk, and was 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 was given to the specific risk factors. After assessment, all bodies and processes were ranked according to

the total score. According to the results of performed risk assessment we identified processes and ICFRs within DMS (NAO/SO and NF) and IPARD Agency which were covered by the system audit<sup>19</sup>.

Considering that AA performed comprehensive test of procedures during FY 2018 and FY 2019, which resulted in high number of findings, within this system audit focus was on the functioning of the control system during implementation (particularly for the processes which currently started implementation due to nature of the process and grade of IPARD II implementation, for example during FY 2019 there were no irregularities and consequently AA couldn't assess functioning of the system) as well as on the changes in the procedures.

For the purpose of compliance testing of operational transactions, selection procedure is explained in section 4.2 (2) of this report.

When it comes to the compliance testing of non-operational transactions, transactions related to the irregularities/debts were covered separately through compliance testing (ICFR were covered through system audit) as well as through substantive testing and for transactions related to the IPARD Euro account dual testing purpose was applied. Sampling details are provided in section 5.2.2 of this report.

#### **4.4 Description of the principal findings and conclusions presented in section 4.2**

##### **4.4.1 Description of the principal findings and conclusions drawn from the audit work for the management and control systems and their functioning, including the sufficiency of management checks, certification procedures and the audit trail, adequate separation of functions and compliance with Union requirements and policies**

Verifications made by AA in IPARD Agency and DMS in respect of this system audit are as follows:

- The AA verified that Manuals of procedures are in line with Framework, Sectoral and Financing Agreement as well as other appropriate national and EU regulation, and whether they are applied in practice;
- The AA verified whether the supervision by management of tasks delegated to subordinates is conducted continuously;
- The AA verified the procedure of identification, assessment and recording of changes affecting the system of internal control;
- The AA verified adequacy of the irregularity process and implementation in practice;
- The AA verified whether appropriate publicity measures are taken and whether all information concerning the activities related to IPARD Programme 2014-2020 is published on the official website of the DP/ MARD and in the media;
- The AA verified whether the internal control system for calculation of the economic viability of recipient (procedure for assessment of a business plan) and for checking of reasonableness of costs (including reference price database) is set up appropriately;

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<sup>19</sup> Taking into consideration the results of conducted risk assessment, the MA as body with the lowest level of risk was not covered by system audit during FY 2020

- The AA evaluated accounting system within Department for Accounting and Budget (main accounting functions including process of recording of debts to be recovered and preparation of periodic summaries of expenditure as well as preparation of quarterly and annual declarations to the Commission) ;
- The AA verified the implementation of the following procedures: procurement, payment, budgetary, reconciliation and archiving;
- The AA verified the procedure of identification, assessment and recording of exceptions;
- The AA verified whether adequate segregation of duties is ensured;
- The AA verified whether continuity of operations is ensured, as well as whether adequate security procedures are implemented;
- The AA verified whether the reporting lines are established in a way that provides a good and efficient flow of information including procedures for collection of data for monitoring and reporting;
- The AA verified appropriate assurance role from NAO/SO including timely preparation and issuance of the Annual management declaration.

For the purpose of compliance testing of operational transactions, AA applied dual testing purpose and findings are presented in the section 5.8.1 of this report.

*List of the transactions reviewed for the compliance testing of the operational transactions is presented in Annex 4 to this Report*

**List of samples reviewed for compliance testing of operational transactions**

Sample number	ID number	Measure	Coverage of the test (if it covers entire process from the application till the final declaration of expenditure): yes (Y) or no (N)						Amount of transaction (EUR)	Error detected* (EUR)	Sample used for dual purpose testing: yes (Y) or no (N)
			Administrative controls	On-the-spot controls	Payment procedures	Accounting procedures	Advances/ securities	Procedures for debts			
1	321-1015/18-14	1	Y	Y	Y	Y	N/A	N/A	7,166.69	7,166.69	Y
2	321-1116/18-11	1	Y	Y	Y	Y	N/A	N/A	10,143.28		Y
3	321-1223/18-16	1	Y	Y	Y	Y	N/A	N/A	7,968.28		Y
4	321-1149/18-13	1	Y	Y	Y	Y	N/A	N/A	17,685.70		Y
5	321-1184/18-8	1	Y	Y	Y	Y	N/A	N/A	6,329.30		Y
6	321-1118/18-12	1	Y	Y	Y	Y	N/A	N/A	13,804.03		Y
7	321-1385/18-11	1	Y	Y	Y	Y	N/A	N/A	6,203.30		Y
8	321-1169/18-11	1	Y	Y	Y	Y	N/A	N/A	7,051.24		Y
9	321-1182/18-9	1	Y	Y	Y	Y	N/A	N/A	9,569.60	9,569.60	Y
10	321-1063/18-6	1	Y	Y	Y	Y	N/A	N/A	5,581.54		Y
11	321-1345/18-9	1	Y	Y	Y	Y	N/A	N/A	7,480.16		Y
12	321-972/18-9	1	Y	Y	Y	Y	N/A	N/A	5,170.89		Y

\*This errors are identified and clasified as potential errors which are under ongoing assessment and dosen't present known or random error for error calculation purpose.

*The list of the transactions reviewed for the compliance testing of the non-operational transactions are presented in Annex 3 to this Report.*

Number of transactions tested are presented in the table below:

Procedure	No of transactions tested	Findings (if any)
Administrative controls	12	Section 5.8.1
On-the-spot controls	12	Section 5.8.1
Payment procedures	12	There were no findings
Accounting procedures	12	There were no findings
Advances/securities	n/a	n/a
Procedures for debts	1	here below

The AA confirmed that ICS within IPARD II Programme “Works”, but improvements are necessary related to the issues presented in the recommendation below as well as presented in the section 5.8.1 of this report. For part of ICS, control activities “Validation and authorisation – administrative control as well as on the spot control”, AA assessed as “Works partially” as presented below. AA considers that there is no error of systematic nature, and that deficiencies identified are mainly result of lack of experience and knowledge of IA employees. Considering that IA started with execution of payments to recipients in FY 2019 (only 8 payments) and that during FY 2020 they executed 161 payments, there is a significant increase of workload which created possibility for errors due to the complexity and culmination of the whole process of implementation of the IPARD II Programme which the IA truly faced for the first time in the previous year. At the same time, AA emphasizes that out of 33 transaction tested within substantive testing, only one transaction contained financial error which indicates proper functioning of controls.

Even though IA implemented comprehensive training programme during FY 2020, AA strongly recommended to IA to continue organising trainings to employees dealing with administrative and on the spot control as well as to speed up process of signing of contracts with the recipients in order to mitigate risk of de-commitment which is currently high.

- **Control activities: Validation and authorisation – administrative controls**

Findings:

*Findings are presented in section 5.8.1 of this Report as follows:*

- (1) 4.1.1 Incorrect data in the application and failure of controls;
- (4) 4.1.2 Unequal approach of the evaluation committee
- (5) 4.1.3 Discrepancy of SA and Contract for allocation of funds with FWA;
- (6) 4.1.4 Deficiency of assessment of economic viability of recipient;
- (7) 4.1.5 Cancellation of Invitation for offers (tender);
- (8) 4.1.6 Inadequate monitoring of fulfilment of eligibility requirements;
- (9) 4.1.7 Deficiency of evaluating items before payment execution;
- (10) 4.1.3 Inadequate audit trail
- (12) 4.1.5 Failure in notification about performed hidden works
- (13) 4.1.1 Deficiencies in the work of Evaluation Committee

Assessment:

*Considering findings described, AA concluded that all risks are addressed to some extent by controls which may not always operate as intended and consequently AA assessed this ICFR as “Works partially” with the score 2.*

- **Control activities: Validation and authorisation –on-the-spot controls**

Findings:

*Findings are presented in section 5.8.1 of this Report as follows:*

- (1) 4.1.1 Incorrect data in the application and failure of controls;
- (2) 4.1.2 Substantial change of the implementation conditions;
- (3) 4.1.1 Expenditures incurred before grant agreement between IA and recipient
- (8) 4.1.6 Inadequate monitoring of fulfilment of eligibility requirements
- (11) 4.1.1 Weakness in on the spot verifications

Assessment:

*Considering findings described, AA concluded that all risks are addressed to some extent by controls which may not always operate as intended and consequently AA assessed this ICFR as “Works partially” with the score 2.*

- **Control activities: Execution of payments**

Findings:

*There were no findings*

Assessment:

*Considering that there wasn't any finding, AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently AA assessed this ICFR as “Works well” with the score 3.85.*

- **Control activities: Accounting**

Findings:

*There were no findings directly related to the compliance testing. However, some deficiencies related to the accounting procedures are identified during audit of accounts, which are presented in section 6.3 of this Report.*

Assessment:

*Considering that there wasn't any finding, AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently AA assessed this ICFR as “Works well” with the score 3.75.*

- **Control activities: Advances and securities**

At the moment Montenegrin authorities related to implementation of IPARD II do not use possibility of advance payments, so this part is not applicable.

- **Control activities: Debts management**

Findings:

- 1) **Inefficiency in taking further steps in case of recipient under application ID number 18-01-1-0228**

ICF requirement 2. (c) Ensuring that irregularities noted lower down in the organisation are reported appropriately and followed-up, including protection for "whistle-blowers"

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: IPARD Agency*

*According to Article 51(1) of FWA "the IPA II beneficiary entrusted with budget implementation tasks of IPA II assistance shall prevent, detect and correct irregularities and fraud when executing those tasks. To this end, the IPA II beneficiary shall carry out, in accordance with the principle of proportionality, ex ante and ex post controls including, on-the-spot checks on representative and/or risk-based samples of transactions, to ensure that the actions financed from the budget are effectively carried out and are implemented correctly. The IPA II beneficiary shall also recover funds unduly paid and bring legal proceedings where necessary in this regard".*

*Also, according to national legislative - State property law (OG MNE 40/11), Article 53 "Montenegro, its bodies and public services whose founder is the state, and do not have the status of a legal entity, before the courts and other state bodies is represented by the **Protector of property and legal interests of Montenegro**".*

Regarding above-mentioned, during system audit of IPARD Agency which included compliance testing and review of documentation, certain deficiency was noted in case of the recipient with ID No 0228.

During the Audit of operations regarded 4<sup>th</sup> Quarter of 2019, the Audit of Authority discovered that above-mentioned recipient had procured a backhoe instead of combined manure handling machine which was stated in the request for support. Therefore, the AA in Final Report which was sent to IPARD Agency on 4<sup>th</sup> March 2020, recommended initiating procedures for recovery of funds from recipient with ID No 0228 in amount of 65.200,00€. Accordingly, the IPARD Agency issued a Request for additional on the spot control and the same was performed on 24<sup>th</sup> June 2020. After the additional OTSC was performed, the IPARD Agency issued a Report for suspected/detected irregularity on 17<sup>th</sup> September in accordance with *Manual on the manner and procedure of preventing, detecting and proceeding in case of irregularities and frauds* (Annex DP-01-01), based on which Decision on recovery of funds was made. In decision on recovery of funds it was specified that recipient should return the funds with legal interest starting from the day of expiration of the payment period until the day of final payment, within 15 days from the date of receipt of this decision under threat of enforcement.

Based on reviewed case file and correspondence with auditee representatives it is noted that, even the funds haven't been recovered within the deadline for recovering of funds determined in Decision on though recovery of funds, IPARD Agency did not take further steps regarding the subject case other than the calculation of interest from the date after the determined deadline.

### **Recommendations:**

We recommend initiating further procedures for recovery of funds in order to prevent national financial interests which primarily implies informing the Protector of Property and Legal Interests of Montenegro, in charge of defending financial interest of Montenegro against other legal entities, by the Director of the IPARD Agency and providing him with the relevant documentation required to initiate judicial procedure. We also recommend informing the NAO about subject case and undertaken procedures.



**AA follow up status:** Considering the fact that IA initiated all necessary steps at its disposal in order to return the funds, this recommendation was considered as **closed**. However, the AA recommended IA in the future to initiate procedures for recovery of funds as soon as deadline defined in the Decision for recovery of funds expires.

Assessment:

*Considering findings described, AA concluded that all risks are addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently AA assessed this ICFR as "Works" with the score 3.2.*

**Findings for other ICFRs** which are not a part of control activities, but were subject of audit, are presented below:

## **2) Inadequate recording and reporting of irregularities**

ICF requirement 2. (c) IPA body should ensure that irregularities noted lower down in the organisation are reported appropriately and followed-up, including protection for "whistle-blowers".

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: IPARD Agency*

During compliance testing and review of IPARD Agency documentation, we have identified following deficiencies:

- **Non-compliance of Manual of irregularity with Guidelines on irregularity management issued by AFCOS Office of Montenegro** (hereinafter: Guidelines) - Irregularity register according to Manual of irregularity doesn't have all relevant columns which contains Irregularity register prescribed by Guidelines such as:
  - Date of the first information leading to suspicion of irregularity;
  - Source of first information;
  - Date of verifying Irregularity Alert Form;
  - Description of suspicion of irregularity;
  - Temporary measures for protection of financial interests;
  - Initiated procedure for irregularity identification;
  - Suspicion of fraud;
  - Established irregularity;
  - Date of issuing Conclusion on established irregularity / non-existence of irregularity;
  - Report included in IMS system;
  - Reference number in IMS system;
  - Breached provisions of European Union law;
  - Conducted control through which irregularity was identified;

- Description of irregularity;
- Date of closing the case;
- Institutions informed on the irregularity;
- Remarks.

Therefore, beside the fact that IA doesn't use a prescribed version of Irregularity register, from current one we can't conclude for which case files IA received report on irregularity, i.e. the whole process which implies getting information of existence of suspicion of irregularity to closing the case and the relevant dates.

- **Non-completion of Irregularity alert form according to Guidelines** - According to Guidelines Implementing agency **immediately** assessed truthfulness of received information on suspected irregularity. Depending on whether further investigation is needed, the Agency should fill in the envisaged space "further proceeding point A or B" in Irregularity Alert Form (Annex 1 of Guidelines). Instead the IPARD Agency uses their form prescribed by Manual of irregularity (Report on suspected/detected irregularities – DP-01-01) which is not aligned with prescribed annex from Guidelines, and which employee fulfils within three days after discovery of the irregularity and submits it to IO. Also, IA doesn't fulfil this report for every suspicion, but only for confirmed one which doesn't provide adequate audit trail about all reported cases, initiated proceedings and relevant conclusions about it. At the same time, according to the Guidelines, IA should send every Irregularity alert form to the NAO, DMS, AFCOS and Head of MA which is not applied in practice.
- **Untimely reporting and inefficiency in proceeding irregularity cases** - Guidelines for the completion of the standard form for quarterly communications of irregularities in connection with the Instrument for Pre-Accession Assistance (IPA) issued by OLAF prescribe obligation for beneficiary countries within the IPA programme to report immediately to the Commission every irregularity as well as to undertake recovery proceedings. (Point 8, page 3). Also, according to Manual of irregularity (Chapter 9-Reporting irregularities, 9.1.1-Initial reporting) and Guidelines (Chapter VI-Reporting on identified irregularities, VI.2- Initial reporting) the Implementing agency immediately submits to AFCOS Office an initial report in the framework of IMS system. Therefore, during system audit certain delays were noted regarding cases recorded in Irregularity Register.

Irregularities regarding these cases are confirmed and some of them submitted to AFCOS as following: 1) Recipient with ID No 0278 - irregularity noticed by AA report on 30<sup>th</sup> December 2019 confirmed by IA on 29<sup>th</sup> June 2020 and registered in AFCOS on 6<sup>th</sup> July 2020; 2) Recipient with ID No 0127 – irregularity noticed by AA report on 30<sup>th</sup> December 2020, confirmed by IA on 6<sup>th</sup> March 2020 and registered in AFCOS on 6<sup>th</sup> July 2020; 3) Recipient with ID No 0005 - irregularity noticed by AA on 4<sup>th</sup> March 2020 confirmed by IA on 17<sup>th</sup> June 2020 and registered in AFCOS on 6<sup>th</sup> July 2020; 4) Recipient with ID No 0228 - irregularity noticed by AA on 4<sup>th</sup> March 2020 confirmed by IA on 17<sup>th</sup> September 2020 and registered in AFCOS on 4<sup>th</sup> November 2020; 5) Recipient with ID No 0114 – despite rejection letter and decision for partial payment which contains information that part of investment is rejected due to irregularity, there is no report about irregularity and there is no confirmation by IA, neither was the case registered in AFCOS system; 6) Recipient with ID No 0125 – even though the AA recommended initiating investigation related

to potential irregularity on 20<sup>th</sup> November 2019, there is no information about this case neither in registers, reports or other relevant documents and there hasn't been any conclusion about it yet.

- **IPARD Agency doesn't issue a Conclusion on irregularity in accordance with Guidelines (template from Annex 03)** – IPARD Agency doesn't issue a conclusion on every suspected irregularity in line with the Guidelines (Annex 03), they draw conclusions on **identified** irregularities at sectoral meetings organized due to current cases of irregularities instead.
- **Incompleteness of the Irregularity register** – according to Guidelines (Annex 2 – Irregularity register) every suspicion of irregularity should be noted in the Irregularity register. However, IPARD Agency doesn't adequately fulfil the Irregularity register, although there were reported suspicions of irregularities.
- **Nonfulfillment of Table of deadlines** – According to Manual of irregularity (Chapter 7) there should be established the Table of deadlines where all deadlines should be monitored. During system audit it was determined that Table of deadlines was not filled in.

### Recommendations:

Bearing in mind the above-mentioned observations, we recommend the following:

- **Completing the form of Register of irregularities** by adding the columns prescribed by Guidelines on irregularity management which would provide a clearer insight into the whole process of irregularity management and its duration from getting information of existence of suspicion of irregularity to closing the case.
- **Completion of the Irregularity Alert Form** prescribed by Guidelines (Annex 01). In accordance with observations set out in point 2 of this finding, we recommend IPARD Agency to use the Irregularity Alert Form prescribed by Guidelines in order to have clear trail regarding every received information about suspected irregularity regardless of whether there was a need for further investigation upon it or not and to have recorded when proceedings for identifying the irregularity have been initiated as well, which cannot be concluded based on current form which IPARD Agency uses (DP-01-01). In addition, IA should inform all relevant stakeholders about suspicion of irregularity as prescribed by Guidelines.
- **Efficient proceedings with irregularity cases** – as it was stated in point 3 of this finding Guidelines (OLAF and AFCOS) prescribe obligation for IA to report immediately to the Commission every irregularity as well as to undertake recovery proceedings. Average time for reporting of irregularity (from the date of information leading to a suspicion to the date of IMS registration) is more than 3 months which could not be interpreted as immediately. IA should ensure more efficiency in this process and make efforts to immediately report every case to AFCOS.
- **Issuing a Conclusion on irregularity** – in order to meet requirements, set out in Guidelines, we recommend IPARD Agency to issue a Conclusion on irregularity (Annex 03) which would provide detailed description of irregularity cases.
- **Completion of the Register of irregularities** – regarding observations set out in point 5 of finding, we recommend IPARD Agency to record all cases in the Register of irregularities for which the suspicion of irregularities has been reported, for the purpose of easier monitoring of

the further course of events related to these cases and prevention of the occurrence of irregularities or fraud.

- **Filling in the Table of deadlines** – as it was outlined in point 6 of finding, we recommend IPARD Agency to fill in the Table of deadlines which would provide easier monitoring of cases and clear review of information flow.

**AA follow up status: Open**

### **3) Lack of procedures for recording and monitoring of changes IA**

ICF requirement 2(d) – Identification and assessment of changes affecting the system of internal controls  
- Ensuring that management identifies and assesses important changes, both internal and external, that can affect the effectiveness of internal controls and have impact on the organization's achievement of objectives.

*Level of priority: Minor*

*Body/-ies concerned by the finding: IPARD Agency*

By analysing the MoP of the IPARD Agency, the AA auditors have identified that the procedures do not define the obligation to register all changes of the system in one document, i.e. to prepare a register of changes.

The IA prepares only the Annex Register of modifications that presents changes within the manual, but there is no record of other changes as: key staff, program, decree, organizational changes, etc.

In order to monitor the occurred changes in the system, it is necessary to put them all in one document, which will be available to IA employees and to other interested parties.

#### **Recommendation:**

We recommend the IA to improve the Manual of procedures by adding the obligation to register all occurred changes in one document in order to facilitate their monitoring.

**AA follow up status: Open**

### **4) Vaguely defined retention period**

ICF requirement 3.(a) (xii) *Archiving procedures ensuring that documents will be available for review throughout the required periods for which they must be kept*

*Level of priority: Minor*

*Body/-ies concerned by the finding: IPARD Agency*

The IPA II beneficiary shall retain for six years from the final date for operational implementation of a financing agreement, all documents relevant for the procurement and grant award procedures, contracts, addendum, relevant correspondence and all relevant documents relating to payments and recoveries.

According to the Manual on office and archiving work of the IPARD Agency, the documentary material that is related to IPARD should be kept in the Archive for a minimum of 10 (ten) years in separate archive boxes and ordered by the year of their completion.

Consequently, the retention period presented in the MoP is not clearly defined because it doesn't show from which point the period of 10 years shall be counted.

**Recommendations:**

We recommend amending the procedures in order to harmonize the retention period with the requirements of FWA and SA.

**AA follow up status: Open**

**5) Possible usage of the irrelevant Manual of Procedures version**

ICF requirement 4. (a) Information to support functioning of internal controls ensuring that processes are in place at all levels to identify the information required and expected to support the functioning of the other components of internal control and the achievement of the organisation's objectives.

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: IPARD Agency*

During the review of documentation within IPARD Agency, we identified the risk of possible usage of the irrelevant Manual of Procedures version. Namely, IA changed internal procedures several times in last few years. Due to the long duration of the contracting and payment process for submitted applications and publishing new public calls, employees could be confused about the usage of relevant procedures because there are not appropriate instructions for their use and thus there is a possibility of verifying application by using two or more MoP's versions in different phases. For example, first public calls for M1 and M3 were published in 2018 and version 1.1 of MoP was in force at contracting phase. For some of the contracts signed within first public call, payments have still been executing while version 2.1 of MoP is in force at the moment. Also, new public calls have been published in the meantime.

Additionally, version 2.1 of MoP's relates to advanced payments for contracts signed under public call announced when the version 1.2 was in force.

Constant improvement of procedures through new versions of MoP is necessary, but there should be an adequate and official information about entering into force of the new version of MoPs which would include information regarding which version is applied by specific department/part of organisation or/and public call.

**Recommendations:**

IPARD Agency should officially inform all employees as well as external stakeholders about entering into force of the new version of the MoP's and establish register which should include precise information about which version of MoP should be used for particular department and/or public call.

**AA follow up status: Open**

## 6) Deficiencies in the preparation of the AMD

ICF requirement 5. Monitoring of internal control framework (a) On-going and specific monitoring – ensuring that on-going and specific monitoring is developed and performed to ascertain that the components of internal control are present and functioning at all levels

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: Directorate for Management Structure*

According to Article 9 (4) of the Commission implementing regulation (EU) No 447/2014, the NAO shall follow up the reports of the audit authority referred to in Article 12 and shall provide an annual management declaration to the Commission. The annual management declaration shall be drawn **up per programme**, in the form specified in the Framework Agreement, based on actual supervision by the NAO of the internal control systems throughout the financial year.

The template for Annual Management Declaration is presented in Annex C of the FWA and the standard text of the document should not be amended. In the first paragraph of the AMD the name of the NAO, function, programme, CCI number, year, etc., should be stated. According to the checks carried out by the AA, the CCI number is not presented in the AMD.

According to the procedures, the resources used by the NAO in order to issue the AMD are: NAO AMD assessment report on IPARD 2019 and accompanying annexes. While preparing the AMD for IPARD II, the supporting documents should be prepared only for IPARD II Programme and IPARD II institutions. By examining these documents, the AA auditors identified **deficiencies and inconsistencies**, which are listed below:

### - **NAO AMD assessment report on IPARD 2019:**

Most of the information in the report relates to CBC programme and institutions and other IPA policy areas which are not relevant for IPARD II Programme based on which NAO provided overall assessment. For example:

- Operating effectiveness of ICFR 1(e) Accountability for allocated tasks and responsibilities was assessed as partial, even all details and observations are related to the other IPA institutions, not relevant for IPARD II Programme;
- Design compliance and operating effectiveness of ICFR 3(b) Security control activities were assessed as partial **based on details and observations related to other IPA institutions**. For IPARD Agency as a main controlling body within IPARD II it is stated that it implements high level standards in respect to data and information management and it owns IT equipment which maintains system on **fully operational level**;
- Part V Assessment of the accounting system also relates to the other IPA bodies and institutions, not relevant for IPARD II;
- Some parts of the report refer to IPA I framework, which is not relevant for IPARD II Programme;
- There is no adequate cross-referencing between NAO AMD assessment report and supporting annexes;

- The report in a several parts refers to chapters that do not exist within IPARD Manual of procedures, etc.

- **Annex C - Overview on follow-up of IAU recommendations from the IAU reports in 2019:**

In the annex Overview of IAU recommendations it is stated that no audit was conducted in **2018** in the IPARD Agency. This annex shall present the internal **audits conducted in the 2019**, when the IPARD Agency was subject to internal audit by IAU of MARD. Besides that, in the NAO assessment report it is stated that the IA was not subject to the internal audit in 2019, even though the AA identified that according to the Internal audit report, the IAU of the MARD conducted several audits related to the IPARD II during 2019.

Besides that, in column "Number of findings removed until last follow up" related to the DMS it is stated 1 and in the last column named 'Follow up conducted', the answer is NO which is not aligned.

- **Annex D - Overview of AA findings:**

According to article 59 (2c) of the FWA, the NAO shall provide the Commission with a summary which includes, among other analyses, a follow up given to the reports issued by the Audit Authority. The Annex used by the NAO presents a table that includes only the number and significance of findings per body without any kind of analysis on impact on system of internal control and possible corrective measures.

- **Annex E - Overview of Irregularity Reports:**

By analysing NAO AMD assessment report and annex E Overview of Irregularity reports, the AA auditors have determined inconsistency of data provided, for example:

- By analysing the table, the AA identified information that irregularities appear in the fourth quarter of 2019 in the IA and in one part of the NAO Assessment report, it is stated that the rate of irregularities is under control, specially having in mind that all **3 irregularity** cases are without financial impact, but in another part of the NAO Assessment report, it is stated that during 2019, there were no irregularity cases reported by the IPARD Agency. Also, In Annex J and Annex K Overview of KRI/KPI results for IPARD II Programme 2014-2020 it is stated that no irregularities are identified;

- **Annex F - Table overview of risks in the IPA institutions in the 2019:**

In the Annex Overview of risks that is sent to the EC, it is stated that 9 risks are identified for DMS and 2 of them are closed. By insight into the Risk register of the DMS, received in March 2020, it was noticed that 9 risks were listed, but only 1 of them is closed.

As regards the IPARD Agency, 13 risks are identified and according to the Annex Table overview of risks in the IPA institutions in the 2019, 2 risks are mitigated, but according to the risk register of IA, 3 risks are completed.

Taking into consideration the low percentage of risks mitigated or closed, presented in Annex F, there is no information in the NAO AMD assessment report about possible corrective measures related to increasing efficiency of risk mitigation process.

- **Annex H – Registers of changes:**

By insight into the registers of changes that were sent to the EC as supporting documents to the AMD, we have identified that the registers do not include some of substantial changes related to IPARD II as follows:

- The information about the adoption of the version 2.0 of the IPARD II MoP is not included. The version entered into force on 31<sup>st</sup> January 2020;
- The new version of IPARD II programme is adopted on 7<sup>th</sup> May 2019, but this change is not included in the Register of changes;
- Amendment to the Decree on the implementation and procedures for use of Funds from the Instrument for Pre-Accession Assistance (IPARD II Programme)- ("Official Gazette of Montenegro" No. 46/2019) was adopted on 7<sup>th</sup> August 2019, but this change was not included in the Register of changes;
- Information about the adoption of version 2.0 of the DMS for IPARD from 27<sup>th</sup> January 2020 was not included in the Register of changes, etc.

Bearing in mind that the AMD shall be prepared per programme, AA suggest preparation of the annexes "G" and "H", that support the AMD, per programme.

#### **Recommendations:**

We recommend preparing the Annual Management Declaration and accompanying documents with due diligence, following relevant templates issued by EC as well as prescribed procedures.

Considering that annexes themselves are not clear and do not provide description and additional information which explain data provided in tables, there should be adequate cross-referencing and consistency between NAO AMD assessment report and accompanied annexes or annexes should be modified in order to provide more details about information provided in tables.

**AA follow up status:** During review of AMD related to the FY 2020, AA confirms that DMS implemented all recommendations described above, consequently this finding could be considered as **closed**.

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

There were no findings of systematic character.

There are two findings which are classified as findings with **potential** financial impact, which are under an ongoing assessment in total amount of 16.736,29€ (presented in section 5.8.1 findings (1) - 4.1.1 Incorrect data in the application and failure of controls and finding (2) 4.1.2 Substantial change of the implementation conditions).



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

Section not applicable to IPARD, since the Programme does not include the financial instruments.

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

During audit AA performed comprehensive testing of written procedures defined in the audit scope as well as detailed compliance testing, which provided **reasonable assurance** for **overall conclusion** obtained from the system audit and relevant ICS. AA assessed ICS for FY 2020 as “Works” i.e. confidence level obtained through compliance testing is 10% (**average**).

### Overall assessment – Matrices

The overall conclusion on the ICS is presented in the following matrices<sup>20</sup>:

#### IPARD Agency

		MATRIX - Assessment of the ICF (IPARD AGENCY)																							
		Assessment Component Procedure		Control environment						Risk management		Control activities				Information and Communication		Monitoring of the internal control framework				Evaluation at assessment criteria		General conclusion	
				Organisation		Human Resources		Delegation				Control activities		IT Security				Monitoring		Internal audit					
				Weighting / Scoring		S	T at 15%	S	T at 5%	S	T at 5%	S	T at 5%	S	T at 50%	S	T at 10%	S	T at 5%	S	T at 5%	S	T at 5%	W	T
Operations	Validation and authorization	Administrati ve controls	2	0.30	2	0.10			3	0.15	2	1.00	3	0.30	2	0.10	3	0.15	3	0.15	20%	2.00	0.40		
		On-the-spot controls	3	0.45	3	0.15			3	0.17	2	1.00	3	0.30	3	0.15	3	0.15	3	0.15	20%	2.00	0.40		
	Payments	Execution of payments		4	0.6	4	0.2			3	0.15	4	2	4	0.4	4	0.2	3	0.15	3	0.15	20%	3.85	0.77	
Accounting		4	0.6	4	0.2			3	0.15	4	2	3	0.3	4	0.2	3	0.15	3	0.15	20%	3.75	0.75			
Advances (*)																				0%	0.00	0.00			
Debts management		3	0.45	4	0.2			3	0.15	3	1.5	4	0.4	4	0.2	3	0.15	3	0.15	20%	3.20	0.64			
												General conclusion										2.96			
												Assessment of ICF						works (medium impact)							
<b>LEGEND:</b>																									
1 to 1.5 = not working																									
1.51 to 2.5 = working partially (significant impact)																									
2.51 to 3.5 = works (medium impact)																									
3.51 above = works well (minor impact)																									

#### LEGEND:

1	to	1.5	=	not working
1.51	to	2.5	=	working partially (significant impact)
2.51	to	3.5	=	works (medium impact)
3.51	above		=	works well (minor impact)

Overall conclusion on the ICS in IPARD Agency, based on the results of system audit, is Works (medium impact) with the score of 2.96.

<sup>20</sup> Presented in Annex 1 to this Report

## National Fund

MATRIX - Assessment of the ICF (NATIONAL FUND)									
	Assessment component Procedure	Control environment			Risk management	Control activities		Information and communication	Monitoring of the internal control framework
		Organisation	Human resources	Delegation		Control activities	IT Security		
Managing functions	Management of IPA II accounts and financial operations	4	3	n/a	3	4	4	4	4
Paying functions	Authorisation and control of payments	4	3	n/a	4	4	4	4	4
	Accounting for commitment and payment	4	3		3	3	3	4	4
	Debt management	4	3	n/a	4	4	4	4	4
	Treasury	4	4	n/a	4	4	4	4	4

Overall average	3.771428571
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Overall conclusion on the ICS in National Fund, based on the results of system audit, is Works well (minor impact) with the score of 3.77.

## NAOSO

MATRIX - Assessment of the ICF (NAO SUPPORT OFFICE)									
	Assessment component Procedure	Control environment			Risk management	Control activities		Information and communication	Monitoring of the internal control framework
		Organisation	Human resources	Delegation		Control activities	IT Security		
Implementing functions	Provide assurance on the effective functioning of	4	4	n/a	4	4	4	4	4

Overall average	4
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Overall conclusion on the ICS in NAO Support Office, based on the results of system audit, is Works well (minor impact) with the score of 4.

## MA

MATRIX - Assessment of the ICF (MANAGING AUTHORITY)					
	Assessment component Procedure	Control environment			Information and communication
		Organisation	Human resources	Delegation	
Managing functions	Selection of measures	3	4	n/a	4
	Programme monitoring	4	4	n/a	4
	Evaluation	4	4	n/a	4
	Reporting	3	4	n/a	4
	Coordination	4	3	n/a	4
Implementing functions	Publicity	3	4	n/a	3

Overall average	3.722222222
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Overall conclusion on the ICS in Managing Authority, based on the results of system audit during FY 2019 as well as follow up performed related to the FY 2020, is Works well (minor impact) with the score of 3.72.

## 5. AUDITS OF SAMPLES OF TRANSACTIONS

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

The audit body that has carried out the audits of samples of transactions is Audit Authority of Montenegro. The AA, carried out audit work, following section 7 of Guideline 2, in order to verify legality and regularity of expenditures. There weren't any other bodies/persons involved in audit work for the annual acceptance of accounts.

List of AA team members involved in audit of sample of transactions

Body	Name	Position	Experience in audit		Type of appointment: permanent (P) or temporary (T)	Chartered accountant / certified auditor	Type of audit work carried out by the body/person
			General	IPARD			
AA	Luka Đukanović	Head of Department for audit of the program of agricultural and rural development	8 years and 10 months	8 years and 10 months	P	Certified Auditor/CIA	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Rina Mučaj Demirović	Authorised Auditor	7 years and 9 months	6 years and 9 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Maja Klikovac	Authorised Auditor	5 months	5 months	P	Certified auditor/ CIPFA, State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Marko Tomčić	Junior Auditor	2 years and 11 months	2 years and 11 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions

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

### **5.2.1 Operational transactions**

For the purpose of audit of operational transactions AA applied appropriate sampling methodology in line with the requirements prescribed in the Guideline 2 “Audit strategy”.

Overall population, identified by AA from which the substantive testing sample were drawn, contains all payments made by IPARD Agency to the recipients, included in the annual declaration as gross expenditure for the financial year 2020. There were 161 payments from IPARD Agency to recipients, in total gross amount of 3.457.758,96€ (EU part). Considering number of payments and requirements prescribed in Guideline 2, for substantive testing of operational transactions, AA used non-statistical sampling method using IDEA software in order to have randomly chosen sample. For the purpose of the non-statistical sampling, the sampling unit is a single payment made by the IPARD Agency to the recipient.

Considering both the correct timing of the different audit steps, and the need to perform the audit in a timely and efficient manner, AA decided to use possibility of drawing sample in three stages, in line with point 7.1.4.1 of Guideline no.2. The first sample was drawn from the quarterly Declarations covering the first two quarters (D1 Q1 and D1 for Q2) of FY 2020, the second sample was drawn from Declaration of third quarter (D1 for Q3) and third sample was drawn at the beginning of the year 2021 from the Declaration of the last, fourth quarter (D1 for Q4).

For calculating the sample, AA followed Guideline 2, point 7.1.3.1 and based on submitted D2 and accompanying lists of payments by NAO to the EC which contain 161 payments as well as overall assessment of ICS of the IPARD Agency assessed as “Works”, determined that the minimum sample size should be 32.2 or rounding up to 33 transactions. AA decided to treat all payments in the year under all measures as one single population and not to use stratified approach. In addition, AA didn't treat any transaction as a high value item.

First sample was drawn from population which contains expenditures declared (list of payments) in Q1 and Q2 of FY 2020, total of 94 payments in amount of 882.106,86€. The AA, using IDEA software, randomly chose 19 payments in amount of 195.711,28€. Second sample was drawn from population which contains expenditures declared (list of payments) in Q3 of FY 2020, total of 42 payments in amount of 1.766.846,26€. The AA, using IDEA software, randomly chose 8 payments in amount of 529.209,51€. Third sample was drawn from population which contains expenditures declared (list of payments) in Q4 of FY 2020, total of 25 payments in amount of 808.805,84€. The AA, using IDEA software, randomly chose 5 payments in amount of 262.724,30€.

Taking into account the fact that AA decided to use possibility of drawing sample in three stages, in line with point 7.1.4.1 of Guideline no.2, after submission of D2 and accompanying list of payments by NAO to the DG AGRI which contains 161 payments, AA identified that sample for audit of operational transactions should be  $32.2 \approx 33$  transactions. Considering that sum of transactions tested through three samples was 32, AA decided to include additional transaction from the whole population (final list for

payments for FY 2020). In order to take unbiased and realistic approach for additional sample, from the final list of payments, AA excluded 32 transactions tested through three stages and from remaining transactions (129), using IDEA software chose one payment<sup>21</sup> in amount of 5.504,00€.

When it comes to the number of payments, out of 161 payments, AA chose 33 payments for substantive testing which presents 20.5% of total population. When it comes to the audited value, out of total amount of payments 3.457.758,96€ (EU part), AA by substantive testing covered 993.149,09€ which presents 28.72% of total population. The AA confirms that applied sampling methodology is in line with requirements prescribed in Guideline 2.

In line with the DG AGRI guideline no 2 “Audit Strategy”, materiality level<sup>22</sup>, i.e. maximum deviation that can be accepted, in monetary terms is set up at max 2% of gross certified expenditure declared to the Commission and for FY 2020, amounted to 69.155,18 €.

All sampled transactions (33 transactions) are fully tested, both administratively and on-the-spot. Administrative and on-the-spot verifications are carried out based on detailed checklists, developed by the AA before the actual testing is carried out, which fully cover the requirements of the Framework and the Sectoral Agreement, IPARD II Programme, national legislation, as well as specific call for applications of each sampled project.

During the administrative verification the AA carried out a full assessment of each item in the sample in order to establish the legality and regularity of the expenditure, which inter alia included verification of eligibility of recipient, eligibility of project, eligibility of the items purchased (including the compliance with the rule of origin), reasonableness of the costs, correctness of the payment amount, correctness of the co-financing rate applied, double financing, etc.

After administrative verification, AA performed on-the spot verification of the sampled projects in order to address any doubts raised during administrative verification. The AA carried on-the-spot verification by a minimum of two people from the AA with good understanding of the project, considering the results of the administrative verification. During on-the spot verification, the AA auditors verified, inter alia, the location of the projects, eligibility of the recipient (land size, number of animals, etc), machinery/equipment procured through projects, constructions, visibility requirements, etc.

After the completion of both verifications, the AA combined the results from the administrative and on-the-spot control, and established if the projects and all of the parts are eligible for IPARD financial support, and if the amounts of EU co-financing provided for the projects are correct. All the work done and conclusions obtained are supported by checklists, working papers and relevant evidences.

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<sup>21</sup> Expenditure declared within Q1 and result of audit of this transaction is presented through Audit engagement report for Q4. During audit of this transaction AA didn't identify any error or deficiency,

<sup>22</sup> For the purpose of error evaluation, we used only EC part of gross expenditures.

### 5.2.2 Non-operational transactions

For the purpose of audit of non-operational transactions AA applied appropriate sampling methodology in line with the requirements prescribed in the Guideline 2 “Audit strategy”.

AA performed substantive testing of non-operational transactions separately for irregularities/debts and transactions in the IPARD Euro account, while IPARD Agency hasn't established legal base for advance payments yet and consequently, AA could not perform substantive testing for advances.

When it comes to irregularities/debts, there were 4 transactions during 2020, and AA decided to test all of them, i.e. 100 % of population, without need of any sampling methodology.

When it comes to the movements in the IPARD Euro account, AA identified that there were 44 transactions/movements in total (debit and credit) for period from 01/01/2021 to 31/12/2020. Considering that pair “payment execution/control activity” were assessed as “Works well”, according to Guideline No 2, minimum sample size is 8 transactions. Using non-statistical methodology by IDEA software, AA randomly chose 9 transaction/movements in Euro IPARD account for substantive testing and verification in order to establish the legality and regularity of the declared principal and interest amounts.

During the administrative verification the AA carried out a full assessment of each item in the sample in order to establish whether the debt management procedures were carried out in compliance with the applicable rules and whether the debt-related information provided to DG AGRI with the quarterly and annual declarations is correct. Therefore, the AA verified that the new debts have been established correctly. Namely, all the debts that have been established and were included in the debtor's ledger, the amount of debt in national currency has been established correctly and the debt is correctly broken down to national and EU part.

Also, AA verified that the interest was calculated on all debts on which the interest should have accrued (taking into account the national legal basis at a time when the interest should be calculated). Namely, AA verified that the interest was calculated on all debts on which it should have been calculated, correct rate has been applied to calculate the amount of interest, the amount of calculated interest is mathematically correct and interest has been correctly presented in Debtors ledger which was sent to the EC as supporting document to the Annual Declaration of Accounts for FY 2020 (D2).

AA verified the completeness and correctness of the amounts declared as recovered (amounts declared as recovered have been credited to the IPARD Euro account within three working days from the date of recovery, all recoveries that have been made in the reference period were recorded and included in the declarations to the Commission for that reference period, the EU part of the recovered debt was credited to the IPARD Euro account.

During substantive testing of the IPARD Euro Account AA verified legality and regularity of the debit and credit transactions of the IPARD Euro Account. Namely, all transactions have been made for the right purpose, the transactions have been made to the recipient's bank account only and no transaction has been made in order to use any amount of principal for any purpose outside of the IPARD Programme.

**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.**

Taking into consideration number of payments during FY 2020, statistical sampling is not applicable. As mentioned above AA used non-statistical methodology.

**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. Considering that Montenegro using euro the part for reconciliation with national currency is not relevant.

**5.4.1 Reconciliation of the annual declaration (D2) with the interim quarterly declarations (D1s)**

	Amount of expenditure declared	
	Public contribution (EU + national)	EU part only
<b>Quarterly declarations</b>		
1st quarter	412.610,39	309.457,74
2nd quarter	762.986,62	572.239,90
3rd quarter	2.355.506,33	1.766.629,67
4th quarter	1.078.407,84	808.805,84
<b>Sum of quarterly declarations</b>	4.609.511,18	3.457.133,15
<b>Annual declaration (D2)</b>		3.457.758,96
<b>Difference</b>		-625,81

Considering Guideline, No 5 on Annual accounts, point 2.4.2 and obligation of Montenegro to state net amount of EU part, difference of 625,81 € was caused by displaying sum of quarterly declarations within annual declaration (D2) as gross instead of the net amount. The difference is related to recoveries in amount of 625,81€. Details about this issue are presented in the finding 1 within section 6.3 of this Report.

**5.4.2 Reconciliation of the annual declaration (D2) with the list of payments provided by the NAO in line with Article 45(d) of the SA II**

	EUR (EU part only)
Amount of gross expenditure declared in the annual declaration D2	3.457.758,96 €
Sum of payments stated in the list of payments	3.457.758,96 €
<b>Difference</b>	0,00€

AA can confirm that in FY 2020 there were no differences between the payments made and registered in the List of payments and gross expenditure declared in the Annual Declaration (D2), so the Annual Declaration (D2) is reconciled with the List of payments.

#### **5.4.3 Verification of the correctness of the list of payments (Article 45(d) of the SA II)**

AA verified the correctness of the list of payments and for all payments listed verified that:

- Payments stated in the list of all payments were made in the financial year 2020;
- No double payment to a recipient was made;
- A payment order for all the payments has been issued within six months from the date of the submission of the payment request by the recipient;
- Payments to the recipient have been made within three working days of the date of debiting the amount against the IPARD Euro Account.

In addition, according to the Guideline 2, point 8.1 (3) the AA verified correctness of the information (dates and amounts) stated in the list of payments. The verification is performed on a randomly chosen sample of 33 payments, i.e. 20 % of 161 of transaction in the list using non-statistical methodology by IDEA software.

#### **5.4.4 Reconciliation of the balance of the IPARD Euro account declared in the annual declaration (D2) with the bank account statement and the transactions in the bank account during the year**

<b>Reconciliation of the balance of IEA</b>	
<b>Document</b>	<b>Amount</b>
D2	6.091.194,36 €
Bank account statement 31.12.	6.091.194,36 €
Difference	0,00 €

There is no difference between the balance of the IPARD Euro account declared in the annual declaration (D2) and the balance presented in the bank account statement.

#### **5.4.5 Any other reconciliation deemed necessary for providing the audit opinion**

During audit of accounts the AA identified difference of 0,20 € between the accounting records including Balance Sheet and the balance on the end of the year on the IPARD Euro account. Namely, in the Balance Sheet on the account 111 (Cash in Central Bank – IPA main account) amount of 6.091.194,16€ is presented and in the analytical card of IPARD Euro account the amount of 6.091.194,36€ stands in the end of the financial year. DMS provided an explanation through checklists related to the financial statements in which it was stated that due to accounting system, amount paid cannot be higher than amount requested and because of that lower amount was recorded. However, the AA identified that above-mentioned difference is the result of applying a different approach in the calculation of the EU part by the EC and NF. The EC during calculation of the EU part applies a percentage of 75% to the total amount of public contribution presented within quarterly declarations of expenditure and revenue (Form



D1). On the other hand, NF, based on IA information applies a percentage of 75% on each payment separately. Difference in presented approach resulted in difference in 0,20€.

Furthermore, AA identified that when calculating the EU part, IA during rounding numbers to two decimal places uses function **rounding down** in excel, so the result is always a less number. Using described method during rounding numbers, in certain cases, may have as consequence a possibly slightly lower amount (0.01€) regarding the final payment to the recipient than the amount specified in the authorization letter, and thus the IA places a potential difference by increasing the national part by 0.01€.

#### 5.4.6 Reconciling the declared closing balance of the debtors' ledger

The correctness of the closing balance of the debtors' ledger declared in the annual declaration is established by:

##### 5.4.6.1 Reconciliation of the amount declared in the annual declaration with the actual closing balance of the debtors' ledger

Reconciliation of the balance of debtors' ledger	
Document	Amount
D2	48.900,00 €
Debtors' ledger	48.900,00 €
Difference	0,00 €

Closing balance of the debtors' ledger declared in the annual declaration (D2) is equal to the closing balance of the actual debtors' ledger (balance on 31.12.2020).

##### 5.4.6.2 Reconciliation of the difference between gross and net expenditure and the total amount of administrative errors, recoveries and written-off amounts visible from the movements of the debtors' ledger

Gross amount paid by IPARD Agency and declared in D2 is 3.457.758,96 €, recovered amount based on debtor ledger is 625,81 €, administrative errors are 0,00 € and net amount is 3.457.133,15 €.

AA can confirm that the difference between the gross and the net eligible expenditure is not more than the amount of administrative errors, written-off amounts and recoveries returned in the financial year 2020.

##### 5.4.6.3 Roll forward of the debtors' ledger

Debtors' ledger year n	Amount EU part		
(a) Opening balance year n	0,00 €	0,00 €	Debtors' ledger - Closing balance year n-1
(b) New cases	49.525,81 €		

(c) Recoveries	625,81 €		
(d) Written-off debts	0,00 €		
(e) Corrections	0,00 €		
Closing balance year n a+b-c-d+/-e	48.900,00 €	48.900,00 €	Closing balance as declared in the annual declaration for year n

AA can confirm that the closing balance of the debtors' ledger is equal to its last year's opening balance plus the transactions (new debts, recoveries and written off amounts).

#### **5.4.7 Reconciling the declared principal amount and interest of the IPARD Euro account**

Correctness of the closing balance of the principal amount and interest of the IPARD Euro account declared in the annual declaration is established by:

##### **5.4.7.1 Reconciliation of the balance of the IPARD Euro account declared in the annual declaration (D2) with the bank statement of the IPARD Euro account**

Reconciliation of the balance of IEA	
Document	Amount
D2	6.091.194,36 €
Bank account statement 31.12.	6.091.194,36 €
Difference	0,00 €

AA can confirm that closing balance of the IPARD Euro account declared in the D2 is equal to the actual closing balance of the IPARD Euro account on December 31<sup>st</sup>, 2020.

##### **5.4.7.2 Roll-forward of the IPARD Euro account**

On November 4<sup>th</sup> 2020 the Commission transferred to the IPARD II Euro Account amount of 600.000,00 € as Community contribution of pre-financing as well as three payments on the basis of quarterly declarations related to FY 2020 in total amount of 2.648.327,51 € as well as one payment on the basis of quarterly declaration related to FY 2019 in total amount of 1.127.409,95 €. During FY 2020, there were recoveries in amount of 625,81€. On December 31<sup>st</sup> 2020, on the IPARD II Euro Account there was an amount of 6.091.194,36 €.

In the course of FY 2020 there was no interest, and balance of interest by December 31<sup>st</sup> 2020 was 0,00 €. The deposit account is not opened and therefore there is no realized interest income.

	Principal amount (EUR)	Interest (EUR)
Opening balance of the IPARD Euro account	<b>5.172.590,05</b>	<b>0,00</b>
Current account <i>[account number]</i>	5.172.590,05 [907-0000000086001-40]	0,00
Deposit account <i>[account number]</i>	0,00	0,00
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00
<i>[Deposit number] / [due date]</i>	0,00	0,00
<i>[Deposit number] / [due date]</i>	0,00	0,00
Transactions in the financial year		
Amounts received from the Commission in the financial year	4.375.737,46	
- for pre-financing	600.000,00	
- for covering expenditure executed in the previous FY	1.127.409,95	
- for covering expenditure executed in the current FY	2.648.327,51	
Interest accrued on the IPARD Euro account during the financial year		0,00
Amount of expenditure	3.457.758,96	0,00
Amount of national contribution financed from interest		0,00
Recovered amounts	625,81	
Written-off amounts	0,00	
Other transactions (to be broken down in detail)		
Expenditure excluded from the declarations of expenditure	0,00	0,00
- financial adjustments made by the NF	0,00	
Payment of financial corrections made by the Commission	0,00	
Bridge financing	0,00	0,00
- funds transferred from state budget	0,00	
- funds transferred to the state budget	0,00	
Closing balance of the IPARD Euro account	6.091.194,36	

	Principal amount (EUR)	Interest (EUR)
Current account	6.091.194,36	0,00
Deposit account	0,00	0,00
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00
[Deposit number] / [due date]		
[Deposit number] / [due date]		

AA can confirm that opening balance and transactions made through the year are reconciled with the closing balance of the IPARD Euro account.

#### 5.4.8 General reconciliation of data for the purpose of testing the correctness of the whole declaration (expenditure, debtors' ledger and IPARD Euro account)

General reconciliation of data is carried out to compare if several balances reconcile with each other. In this context AA reconciled the transactions of the IPARD Euro Account with the amount of payments from the list of payments, amounts of recoveries and written-off debts to the Debtors Ledger.

The reconciliation is presented in the table below:

	<b>IPARD Euro account</b>	
	<b><u>Principal amount (EUR)</u></b>	<b><u>Interest (EUR)</u></b>
Opening balance of the IPARD Euro account	<b>5.172.590,05</b>	<b>0,00</b>
Current account [account number]	5.172.590,05 [907-0000000086001-40]	0,00
Deposit account [account number]	0,00	0,00
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00
[Deposit number] / [due date]	0,00	0,00
[Deposit number] / [due date]	0,00	0,00
Transactions in the financial year		

	<b>IPARD Euro account</b>				
	<b><u>Principal amount (EUR)</u></b>	<b><u>Interest (EUR)</u></b>			
Amounts received from the Commission in financial year	4.375.737,46				
- for pre-financing	600.000,00				
- for covering expenditure executed in the previous FY	1.127.409,95				
- for covering expenditure executed in the current FY	2.648.327,51				
Interest accrued on the IPARD Euro account during the financial year		0,00	Annual declaration amount of expenditure declared		Difference
Amount of expenditure	3.457.758,96	0,00	3.457.758,96		0,00
Amount of national contribution financed from interest		0,00	Debtors' ledger - EU part only		Difference
			Principal amount	Interest	
Recovered amounts	625,81		625,81	0,00	0,00
Written-off amounts	0,00		0,00	0,00	0,00
Other transactions [to be broken down in detail]					
Expenditures excluded from the declarations of expenditure	0,00	0,00			
- financial adjustments made by the NF	0,00				
Financial corrections made by the Commission	0,00				
Bridge financing	0,00	0,00			
- funds transferred from state budget	0,00				
- funds transferred to the state budget	0,00				
Closing balance of the IPARD Euro account	6.091.194,36				
Current account	6.091.194,36	0,00			
Deposit account	0,00	0,00			

	<b>IPARD Euro account</b>	
	<b><u>Principal amount (EUR)</u></b>	<b><u>Interest (EUR)</u></b>
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00
<i>[Deposit number] / [due date]</i>		
<i>[Deposit number] / [due date]</i>		

As results of the audit of the Annual Accounts, and the reconciliations made for IPARD II for FY 2020, no deviations were found regarding completeness, accuracy and veracity of the amounts, stated in the Accounts, except in the part regarding compiling Balance sheet and filling out the form D2 presented in section 6.3 of this Report.

Total amount of expenditure declared to the Commission for FY 2020 equal to 3.457.133,15<sup>23</sup> € (EU part) within four quarterly declarations submitted by NAO. First one (D1 – Q1) was declared on 14<sup>th</sup> April 2020 in amount of 309.457,74 €, second (D1 – Q2) was declared on 22<sup>nd</sup> July 2020 in amount 572.239,90 €, third (D1 – Q3) was declared on 19<sup>th</sup> October 2020 in amount of 1.766.629,67 € and fourth (D1 – Q4) was declared on 29<sup>th</sup> January 2021 in amount of 808.805,84 €.

As Montenegrin national currency is euro, there were no differences in declared amounts coming from the exchange rates.

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

AA confirm that the negative amounts have been treated as a separate population. During FY 2020, there were three negative items related to the recovered amounts.

### **5.6 Use of non-statistical sampling**

Considering requirements from Guideline 2 “Audit strategy”, point 7.1.3.1 where is defined that in case of population with 500 transactions or less, non-statistical sampling methodology should be used, and number of total transactions during FY 2020, where IPARD Agency executed 161 payments to recipients, AA decided to use non-statistical sampling methodology, using IDEA software in order to have randomly chosen sample.

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<sup>23</sup> Total net amount declared to the EC

## 5.7 Summary of transaction tested

### 5.7.1 Operational transactions

Row No	Basic data	EC part of public financing (EUR) or number
	<b><u>1. Population</u></b>	
a	Total amount of gross expenditure	3,457,758.96
b	Materiality = 2% of a	69,155.18
c	Number of transactions in the IPARD population	161
	<b><u>2. Assumptions used by the AA to determine the sample size</u></b>	
d	Assessment of the ICS of the IPARD Agency	Works
e	Required sample size in terms of hits	32.2
	<b><u>3. Sample tested</u></b>	
	<b><u>3.1 Sample size</u></b>	
f	Number of transactions tested as part of the substantive testing sample	33
g	Value of the sampled transactions tested	993,149.09
	<b><u>3.2 Errors in the sample</u></b>	
h	Total no. of formal errors found in the sampled transactions	0
i	Total no. of random errors found in the sampled transactions (overpayments only)	1
j	Value of random errors found in the sampled transactions (overpayments only)	23,352.36
k	Error rate = $j / g$	2.35%
l	Extrapolated error = $k * a$	81,303.84
m	Total no. of financial errors found in the substantive-testing sample which have been classified as known errors	0
n	Value of financial errors found in the substantive-testing sample which have been classified as known errors	0

	<b><u>4. Tested outside of the sample</u></b>	-
<b>o</b>	Number of additional transactions substantively tested outside the sample	0
<b>p</b>	Total no. of financial errors found in additional transactions substantively tested outside the sample	0
<b>q</b>	Value of known errors identified in additional transactions substantively tested outside the sample	0.00
	<b><u>5. Errors found during compliance testing</u></b>	
<b>r</b>	Total no. of financial errors found in compliance testing	0
<b>s</b>	Value of financial errors found during compliance testing classified as known errors	0.00
	<b><u>6. Calculation of the financial impact</u></b>	-
<b>t</b>	Total error = l + n + q + s	81,303.84
<b>u</b>	Materiality = b	69,155.18

Summary presentation of the error evaluation is also presented in Annex 2 of this report.

## **5.7.2 Non-operational transactions IPARD Euro account**

### **5.7.2.1 Debts**

As regards debts our detailed error evaluation is provided in Annex 3 to this report, following the template Annex 2 of Guideline No 3 “AAAR”. Based on this evaluation the error rate is 0%.

The detailed tables of all debt cases checked and the detected errors including their financial value are attached to this report, in Annex 3 following the template of Annex 2 of Guideline No 3 “AAAR”.

### **5.7.2.2 Advances and securities (if applicable)**

Considering that there weren't advances and securities this part is not applicable.

### **5.7.2.3 IPARD Euro account**

The detailed error evaluation is provided in Annex 3 to this report, following the template Annex 2 of Guideline No 3 “AAAR”. Based on this evaluation the error rate is 0%.

A detailed table of all transactions tested and the detected errors including their financial value is provided in Annex 3 to this report.



**5.8 Analysis of the principal results of the audits (sample items selected and audited, together with the respective amount and types<sup>24</sup> of error by operation) as well as the nature<sup>25</sup> of errors found, root causes and corrective measures proposed, including mitigating these errors in the future.**

**5.8.1 Operational transactions**

<b>Level of importance:</b> Major	<b>Body and area concerned:</b> IPARD Agency – administrative and on the spot control		
<b>Finding number and title:</b> 1. Incorrect data in the application and failure of controls (ref 4.1.1. of final audit report for Q1 and Q2)			
<b>Project(s) concerned:</b> ID no 18-01-1-0097, Measure 1			
<b>Description of the finding:</b> ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements. During administrative and on the spot verification of recipient under application ID no 18-01-1-0097, the AA has identified several deficiencies, which are listed below:  <ul style="list-style-type: none"><li>- Recipient received support for purchasing mechanisation (tractor and accompanying equipment) through fruit and vegetable sector within Measure 1. One of the specific eligibility criteria for this sector is to have minimum 0.5 ha of plantation area at the time of submitting the application. In the submitted request for support and business plan, it is stated that the recipient plants approximately 4,3 ha of potatoes and 2,45 ha of watermelon, i.e. cumulatively 6,75 ha of planted area. Business plan was assessed according to the procedures described in the MoP (v.1.1) as part of administrative check prior to approval of the request for support and before on the spot check by IA employees.</li></ul> During on the spot control which was conducted on 07 <sup>th</sup> of March 2020, controllers of the IA have measured 3,8 ha area <b>planned for planting</b> and accordingly the recipient fulfilled the eligibility condition of 0,5 ha of plantation area. The AA auditors carried out on the spot check on 29 <sup>th</sup> of July 2020 and measured cumulatively 1,17 ha of <b>planted area</b> .  By analysing results from on the spot check, the AA has identified that there are significant differences between the data presented in BP related to plantation area and the actual data established on the field by AA auditors. The discrepancy in measurement of area for plantation is presented in the table below:			
<b>List of real estate no 180, parcel no:</b>	<b>Application</b>	<b>IA OTS check before approval</b>	<b>AA OTS check</b>

<sup>24</sup> Random, systemic, anomalous

<sup>25</sup> For instance: eligibility, public procurement, state aid

1317	1,4 ha of potatoes	0,86 ha – <b>planned</b> for potatoes	Not measured because it was not a planted area
1376	0,55 ha of watermelon	1,71 ha – <b>planned</b> for potatoes	0,5497 ha of potatoes
1405	2,9 ha of potatoes	Not measured because it is not an agricultural land	Not measured because it is not an agricultural land
1478	1,9 ha of watermelon	1,23 ha- <b>planned</b> for watermelon	Not measured because it was not a planted area
1377 1375 1378	These parcels were not presented in the Application as area for planting	These parcels were not presented in the OTSC CL and reported as areas for planting	0,6203 ha of potatoes
<b>Total</b>	<b>6,75 ha</b>	<b>3,8 ha</b>	<b>1,17 ha</b>

*Further analysis of Business Plan and data obtained from the field leads into question the economic viability of the project/agricultural holding, which is one of the eligibility criteria.*

*In addition to the significant difference between the stated area under planting and the planted area determined on the spot, the AA identified a shortcoming in the IA measurement of parcel no. 1376. Namely, in the OTSC report controllers of the IA stated that „although according to the List of real estate no. 180 the area of parcel no. 1376 is 0,54 ha, the AA auditors measured 1,71 ha “. There should be emphasized that list of Real estate Administration presents a unique legal document issued in accordance with the Law on State Survey and Real Estate Cadastre, and as such contains most precise information about land size. During on the spot controls IA can determine if nature of the land has changed and cannot increase legally determined land size.*

*The next deficiency relates to the use of purchased mechanisation. Namely, according to the invoice and delivery note, the recipient received the contracted mechanisation on 21<sup>st</sup> of March 2020. During on the spot check which was conducted on 29<sup>th</sup> of July 2020, the AA auditors identified that the recipient does not use the purchased mechanisation, for example number of working hours of the tractor remained unchanged between on the spot control before payment by IA (28<sup>th</sup> of May 2020) and on the spot check by AA, i.e. 6.7 working hours in total. In addition, part of mechanisation was still unpacked.*

**Recommendation:** *Considering above mentioned deficiencies, the AA recommends the IA to initiate procedure for recovery of funds from recipient in amount of 12.759,47€ (EU part 9.569,60 €), according to Article 50 of the SA, Article 34(11) of the Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme), as well as Article 5, point 12 (j) of the Contract.*

Additionally, the AA recommends the IA to organize additional trainings for DOSC employees for the use of Geoportal of Real Estate Administration and use of obtained data during on the spot control.

**Response of the Auditee: Partially accepted**

The procedure for control of the economic viability of the business plan has been improved in relation to the first public call for M1. A detailed economic analysis is performed for each application, taking into account all submitted data in the application and business plan and accompanying documents. Also, after the OTSC control, all data stated in the business plan and request are checked, and in case of large deviations, an additional analysis of the economic profitability of the project is performed, taking into account the established data from the field and improved control of economic viability taking into account data found in the field. In accordance with the performed analysis, the project is still economically viable, although there are significant deviations from the data stated in the business plan and request, and a detailed explanation is given in the document that we send in the attachment. The recipient cultivates 2.3 ha, of which 1.17 ha is in possession, while for the remaining part the recipient could not provide evidence of the right to use, but a sample of 2.3 ha was found in the field during the second control and the whole was taken for analysis business plan. Additionally, in order to determine the area cultivated by the recipient, IPARD Agency shall conduct a control using relevant data from direct payments through national measures of support. The reply is expected during this week and shall be forwarded to the AA right away.

DOSC conducted the additional control on 16.11.2020. and have established that the mechanization has not been used since the OTSC before the payment. The recipient stated that he had so far cultivated the land with the old mechanization, but that he would use the new one for the next cultivation.

Taking into the account the periodic nature of agricultural practices of the land cultivation, IPARD Agency shall conduct additional OTSC control in the springtime in order to establish whether the mechanization have been used. The IA will follow the recipient for the purpose of using the purchased machinery.

For both stated articles, referring to the obligation of recovery of funds in the Recommendation (namely: i: has performed substantial change of the investment affecting its nature, objectives or implementation conditions which would result in undermining its original objectives, and ii: the applicant has provided false or incorrect information for the allocation of support funds), IPARD Agency doesn't see the grounds for the recovery of funds. IPARD Agency, taking into account above stated deficiencies, is of the opinion that neither Article 34(11) of the Decree nor as Article 5, point 12 (j) of the Contract pose a base for the initiation of the recovery of funds due to the following facts that they refer to the Request for support and that the recipient has not performed substantial change of the investment affecting its nature, objectives or implementation conditions which would result in undermining its original objectives. In the light of all above stated, IPARD Agency kindly asks the Audit Authority to reconsider given recommendation.

IA will organize additional trainings for DOSC employees for the use of Geoportal of Real Estate Administration and use of obtained data during on the spot control as soon as possible

Information update, Dec 2020: Implemented. Detailed business plan assessment performed. Relevant areas checked with the Ministry – the applicant has received support from direct payments through national measures of support. Please find attached relevant evidence. <sup>26</sup>

**Conclusion by the AA:** Considering auditee's response, clarifications and additional evidences provided, as well as the situation caused by COVID 19, AA recommends the IA to monitor recipient

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<sup>26</sup> IA submitted evidences within response (documents are available on request by DG AGRI)

under application ID no 18-01-1-0097 in order to confirm usage of mechanisation and increased arable land size. Monitoring should be performed by on the spot control during agriculture season 2021, and if IA identifies that recipient still not using mechanisation, IA should initiate recovery procedures. Finding could be considered reassessed to finding with protentional financial impact.

The implementation of the recommendation will be further monitored.

**Quantification of the financial impact:** This finding has a potential financial impact of 9.569,60 EUR (EU contribution) for project 18-01-1-0097.

**Actions taken by the auditee to mitigate the risk that the error is repeated in the future:**

IA updated procedure related to on the spot control in order to increase control over recipients. Actions related to these findings are linked to the findings No 6 and 8 within this section of Report.

<b>Level of importance:</b> Major	<b>Body and area concerned:</b> IPARD Agency – on the spot control
<b>Finding number and title:</b> 2. Substantial change of the implementation conditions (ref 4.1.2. of final audit report for Q1 and Q2)	
<b>Project(s) concerned:</b> ID no 18-01-1-0020, Measure 1	
<p><b>Description of the finding:</b></p> <p>According to Article 8, point 12. of Contract for funds, the recipient shall not modify the project whose modification results in: a change in ownership which gives to a firm an undue advantage; a cessation or reallocation of a productive activity outside the geographical area covered by the IPARD Programme; a substantial change of the investment affecting its nature, objectives or implementation conditions which would result in undermining its original objectives, for as long as this Contract it is in force. In addition, according to article 8, point 17 the recipient is obliged to inform immediately the Directorate of occurrences of circumstances significant for execution of Contract.</p> <p>During the on-the-spot verification of recipient under application ID no 18-01-1-0020, the AA has concluded substantial change of investment affecting implementation conditions which undermine its original objectives.</p> <p>Namely, recipient received support for purchasing mechanisation through milk sector within Measure 1. One of the specific eligibility criteria for this sector is minimum 5 cows older than one year at the time of submitting the application. Recipient submitted documentation on 13.09.2018 as a proof for owning 7 cows, but IPARD Agency (Department for on the spot control) during on the spot control on 18.04.2019<sup>27</sup> (contracting phase) found 5 cows and one heifer at recipients agricultural holding. During AA on the spot control which was executed on 13.10.2020, there were 3 cows and one heifer. As a reason for decreasing a number of animals recipient submitted veterinarian's confirmations for two missing cows. According to that documentation, one cow died on 14.12.2019 and another one was forced slaughtered due to unprofitability on 22.08.2020. The recipient did not inform the IA about these changes.</p> <p>On the other hand, recipient presented, through business plan, the production levels in the next five years which are growing progressively and according to the plan recipient should have 7 cows in 2020</p>	

<sup>27</sup> According current procedures, IA is not obliged to check eligibility requirements related to the recipient, so this part wasn't subject of control during on the spot control before payment (see finding 8 within this section of Report).

and 11 cows in 2023. Considering that recipient currently has only 3 cows, there is significant impact on economic viability and original objectives of the project and recipient.

**Recommendation:** The AA recommends the IPARD Agency to perform on the spot control in line with article 5, point 15 of Contract in order to confirm all necessary facts, to present recipient contract obligation and to present to AA remedial action plan. If IA confirms that recipient is not in a position to take corrective actions and that recipient significantly undermines original objectives, IA should initiate recovery of funds in line with article 5, point 12 (j) of the Contract.

In addition, the AA recommends the IA to communicate this and similar specific issues with the DG AGRI in order to obtain adequate clarifications about expected actions of IA in case of animal deaths and force slaughtering.

**Response of the Auditee: Accepted**

IA performed on the spot control on 16.11.2020, and at the moment of on spot control recipient had 3 cows, one heifer and one bull. Recipient has proof that the one cow was treated, as well as proof of death. According to the recipient's, by May at the latest, the bull will be replaced by a cow, and he will meet criteria of 5 heads.

The recipient is also aware of the consequences of not meeting the minimum criteria, as well as that he will be subject to additional control.

The recipient was informed that he would be subject to additional control in order to confirm the statement he gave.

In addition, to avoid situation like this, IA asked for an exception, to add one question in check list related to checking criteria if the recipient is contracted on minimum.

Also, IA has sent an e-mail to DG AGRI, asking for the relevant directions and instructions, as recommended by the AA. The reply is expected during this week and shall be forwarded to the AA right away.

**Information update, Dec 2020:** Please find attached mentioned check-list, OTSC report and the Exception<sup>28</sup>

**Conclusion by the AA:** Considering specifics of the finding and obvious fact that there wasn't intention of recipient to circumvent eligibility criteria (death of the cow), AA concludes that failure, even though substantial and undermining original objectives, is not permanent. In line with auditee response, considering difficult economic situation caused by COVID 19 outbreak, AA expect results of on the spot control and supporting evidences by the May 2021 at latest. In case that IA identifies that recipient doesn't fulfil eligibility requirements, IA should initiate a recovery procedure.

The implementation of the recommendation will be further monitored.

**Quantification of the financial impact:** This finding has a potential financial impact of 7.166,69 EUR (EU contribution) for project 18-01-1-0020.

**Actions taken by the auditee to mitigate the risk that the error is repeated in the future:**

IA updated procedure related to on the spot control in order to increase control over recipients. Actions related to these findings are linked to the findings No 6 and 8 within this section of Report.

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<sup>28</sup> IA submitted evidences within response (documents are available on request by DG AGRI)

<b>Level of importance:</b> Major	<b>Body and area concerned:</b> IPARD Agency – on the spot control
<b>Finding number and title:</b> 3. Expenditures incurred before grant agreement between IA and recipient (ref 4.1.1. of final audit report for Q3)	
<b>Project(s) concerned:</b> ID no 18-01-1-0303, Measure 1	
<p><b>Description of the finding:</b></p> <p>According to Art.33(3) of the SA, Art.9 of the Decree and Art.5 of the First public call for measure 1, expenditures incurred before the conclusion of the agreement between the IA and the recipient are not eligible, except for general costs.</p> <p>During administrative and on the spot verification of recipient under application ID no 18-01-1-0303, the AA has identified that recipient submitted payment request which contains expenditures incurred before the conclusion of the agreement between the IA and the recipient which are not eligible for co-financing.</p> <p>Namely, the recipient submitted Request for support on 15th May, 2018 for investment: 'Creating conditions for expanding production, harmonization with EU standards and strengthening the competitiveness of the vineyard' and applied for solar panels, construction of roads and retaining walls, purchase of mechanisation, well drilling and installations and construction of irrigation system. The IA conducted on the spot control before contracting on May 30th, 2019 and after confirming the facts presented in the request for support, signed the contract with the recipient on July 3rd, 2019. After signing the contract with the IA, the recipient published invitation for offers and received 4 offers for irrigation system from the following companies: "Indel Inzenjering" LLC, "Drill MN" LLC, "Labor" LLC and "Oliver Ing" LLC. The recipient had chosen the lowest offer from "Indel Inzenjering" LLC and signed contract on September 2nd, 2019.</p> <p>According to the procedures, after finishing the investment, the recipient submitted Request for payments on July 20th, 2020, which was approved and paid by the IA. As supporting document to the Request for payments, the recipient has submitted the Invoice from March 9th, 2020 and Report on completed work for irrigation system from June 15th, 2020.</p> <p>During audit the AA determined that the investment was realized in accordance with applicable rules (Sectoral Agreement, Decree, Contract, etc.), except the part related to well drilling. During on the spot verification, the AA auditors noticed that some parts of the installations around the well were with accentuated visible traces of rust, which leads to suspicion that the well was drilled and installed much earlier than reported. Thereafter, the AA auditors approached the market research and found a video on the website of one of the bidders "DRIL MN" LLC, which shows the process of drilling a well on the recipient's parcel, at the location presented within approved and paid payment request. The video upload date is February 11th, 2018 which indicates that recipient submitted payment request which contain expenditures incurred before the conclusion of the agreement between the IA and the recipient, performed by a company that is not contracted one, which are not eligible for co-financing.</p>	
<p><b>Recommendation:</b> Considering above mentioned deficiencies, the AA recommends the IA to initiate recovery of funds related to well drilling and relevant well installations in amount of 28.333,50€ (EU part 21.250,12€ and national part 7.083,38€), in line with article 5, point 12 (a) of the Contract.</p>	
<b>Response of the Auditee:</b>	

*The IA has completed the investigation and examine all the factual circumstances of the case.*

*We enclose relevant evidence of the investigation.*

*1. Photographs of the on the spot control were examined before payment and it was determined that there were no signs of rust. Please find attached relevant evidence.*

*2. As the mentioned video was not found on the web, we addressed a letter to the company "DRILL MN" and received the answer that the only cooperation with the company "I-Wine" was the issuance of a bid accordance to invitation for bids, and no other cooperation, and that are not familiar with the mentioned video.*

*3. The accounting system of the recipient was checked and it was concluded that the company "DRILL MN" is not in the list of clients and that there was no cooperation between them. Also, it was determined that the only transaction between "I-Wine" and "Indel inzenjering" was on 11.03.2020 with the amount of 76,308.77, which is the amount of the construction of the well.*

*4. The recipient submitted a statement stating that "Indel Engineering" is the only legal entity that performed works related to well works, and that it did preparatory projects and field research at its own expense (the data provided from the application).*

*5. We ask the opinion of a construction engineer and received the answer that the sequence of events stated by the recipient is realistic.*

*Please find attached relevant evidence.*

*Based on all conducted investigations, it was concluded that the IPARD Agency does not have sufficient grounds to initiate the procedure of recovery of funds from recipient.*

*Taking into account all of the above-mentioned IPARD Agency kindly asks Audit Authority to reconsider a given recommendation.<sup>29</sup>*

### **Conclusion by the AA:**

*The AA appreciates the investigation performed by IA and encourages to continue so in the future, but arguments and proofs provided are not sufficient for reconsideration of given recommendation. In addition, the AA provides evidences which can support the IA in further processing and recovering procedures.*

*Photos named Well 1 to Well 9 taken by IA and/or AA show the clear difference between new and old parts of the system. Older parts with accentuated visible traces of rust are marked with red circles, while new ones with blue circles.*

*When it comes to the company "Drill MNE" LLC which submitted offer for irrigation system, but not the chosen one, the AA emphasizes that the video found on the Facebook page "Drill MNE" LLC was removed after issuing the Draft report from the AA. As evidence, the AA attached the video as well as other information related to the Facebook page "Drill MNE" LLC. By comparing a satellite image of location of recipient and video found on internet, there is no doubt that the video shows the location of recipient under ID no 18-01-1-0303 and removal of content from the internet presents an additional red flag for irregularities found.<sup>30</sup>*

***Taking into consideration abovementioned, in line with Article 5, point 12(a) of the Contract, the AA recommends the IPARD Agency to initiate recovery of funds related to well drilling and***

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<sup>29</sup> IA submitted evidences within response (documents are available on request by DG AGRI)

<sup>30</sup> AA submitted evidences within final report and final conclusions by AA (documents are available on request by DG AGRI)

**relevant well installations in amount of 28.333,50€ (EU part 21.250,12€ and national part 7.083,38€).**

*The implementation of the recommendation will be further monitored.*

**Quantification of the financial impact:** *This finding has a financial impact of 21.250,12 EUR (EU contribution) for project 18-01-1-0303.*

**Actions taken by the auditee to mitigate the risk that the error is repeated in the future:**

*Considering that AA issued final engagement report on 10<sup>th</sup> February 2021, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.*

<b>Level of importance:</b> Major	<b>Body and area concerned:</b> IPARD Agency – administrative control
<b>Finding number and title:</b> 4. Unequal approach of the evaluation committee (ref 4.1.2. of final audit report for Q3)	
<b>Project(s) concerned:</b> ID no 18-01-1-0303, Measure 1	
<p><b>Description of the finding:</b></p> <p><i>According to Art. 29 of the Decree, Verification of the reality and reasonableness of prices presented in the Request for support, shall be performed on the basis of:</i></p> <ol style="list-style-type: none"><li><i>1) reference price database and or</i></li><li><i>2) comparisons of different offers; and or</i></li><li><i>3) evaluations of the evaluation committee.</i></li></ol> <p><i>During administrative verification of recipient under application ID no 18-01-1-0303, the AA has identified unequal approach in the work of the evaluation committee (hereinafter EvC) related to the verification of reasonableness of prices. Namely, among other items, the recipient has applied for construction of a photovoltaic system (solar panels) and submitted an offer from company “BB Solar” LLC.</i></p> <p><i>The IA requested EvC’s opinion on the reality of “BB Solar” LLC offer prices in April 23<sup>rd</sup>, 2019 and received the opinion that the prices offered were realistic without any documented market research. On June 11<sup>th</sup>, 2019, after changes occurred during processing of application, for the second time the IA requested opinion of the EvC on the reality of the amended offer prices and received the same answer that the prices are realistic without any document confirming the given opinion.</i></p> <p><i>After signing the contract between recipient and IA, the recipient requested a change in the type of contracted items for construction of solar panels, which was approved by Annex 1. Accordingly, the IA requested a new opinion from the EvC on November 18<sup>th</sup>, 2019 about the reality and reasonableness of the offered prices in line with approved changes. Based on the documentation from the IA, for the first time the EvC researched the market for some items from the “BB Solar” LLC offer and gave the opinion that the prices are realistic.</i></p> <p><i>However, based on EvC offer analysis, the AA identified that the price of the grid inverter (2.480,00€ without VAT) is not realistic because the price is 583.43€ higher than the price obtained by market research, i.e. the average price (1.896,56€). In the opinion of the EvC it is stated that although the price</i></p>	



of this item is not realistic, it can be accepted as realistic because the difference (583,43€) makes only 3% of the total offer and that it is an equipment of a reputable manufacturer. On the other hand, within the same case file price for part of equipment "AMK 127 mulching kit" produced by reputable manufacture "Stihl" is not accepted as realistic because the offered price is more than 30 % higher than the average price found by market research.

Based on AA calculation, the offered price is 30.76% higher than the average price and as such it is not realistic. According to EvC procedures price that shall be accepted in such cases is average price plus variation of 5%, i.e. 1.991,39 € (1.896,56 €+ 5%).

Besides for solar panels, unequal approach of the EvC was identified in the opinion about the offer for well drilling and irrigation system received by "Indel Inzenjering" LLC. The EvC, without documented market research, gave opinion that the offer is realistic.

**Recommendation:** The AA recommends further analysis of justification of prices for solar panels of the Evaluation committee, and if the IA determines that the justification is not reliable, the AA recommends recovery of the difference between the offered price (approved price by the EvC 2.480,00€) and the market research price plus variation of 5% (1.991,39€) in total amount of 488,61€ (from which 317,60€ presents total public contribution out of which 238,20€ EU part and 79,40€ national part).

#### **Response of the Auditee:**

The IA has completed the investigation. We received clarification from the Evaluation committee and we submit it attached.

In addition, regarding the second finding for the mentioned recipient, which refers to the opinions of the evaluation commission, by inspecting the submitted opinions and explanations, the following was determined:

Equipment consisting of several smaller units and which did not function without any part, is considered as a whole (e.g. irrigation system, solar systems, milking systems ...)

In one system, if one item of the system is not accepted due to its non-functionality, the complete system would have to be rejected, even though it is in the range of acceptable price.

In this particular case, the variation of the network inventory is only 3% in relation to the entire offer or the complete system.

When it comes to specific jobs that require the preparation of project documentation, it is not possible to do market research, but it contains a bill of quantities and a price estimate based on when the bid is submitted, and the commission considers the compliance of the bid with project documentation and unit prices for individual works. Please find attached relevant evidence.

Based on all conducted investigations, it was concluded that the IPARD Agency does not have sufficient grounds to initiate the procedure of recovery of funds from recipient.<sup>31</sup>

Taking into account all of the above-mentioned IPARD Agency kindly asks Audit Authority to reconsider a given recommendation.

#### **Conclusion by the AA:**

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<sup>31</sup> IA submitted evidences within response (documents are available on request by DG AGRI)

After receiving the auditee's response, the AA has embarked on market research to determine the reasonableness of prices for the construction of the photovoltaic system with technical characteristics from Annex 1 of the Contract. The average price obtained by market research is 11.502,275 € without VAT. The paid amount to the supplier (18.330,00€ without VAT) is higher than price found by market research performed by AA by 6.827,725€.

On the other hand, for the second item of the offer Grid inventor, average price according to Evaluation Committee's market research is 1.896,56€ without VAT. Accepted and paid amount to the supplier is 2.480,00€ without VAT, which means that it is 30,76% higher than the EvC's average price. By applying the calculated difference to the entire invoice for construction of photovoltaic system, the AA came to the amount of 14.017,72€ (without VAT), which can be accepted as a reasonable price for installing solar panels, taking into consideration the variation of 5%, reputable manufacturer, time of research, etc.

**Therefore, in line with Article 5, point 6 (f) of the Contract, the AA recommends the IPARD Agency to initiate recovery of funds related to construction of photovoltaic system in amount of 2.802,98€ which presents total public contribution out of which 2.102,24€ is EU part and 700,74€ national part.**

Besides above mentioned, the AA again emphasises that the Evaluation Committee shall have equal approach while evaluating received offers. Concretely, for recipient with ID no 18-01-1-0303, the EvC answered that it is not possible to do market research for irrigation system, while the same EvC conducted market research for irrigation system for recipient with ID no 18-01-1-0114.

The implementation of the recommendation will be further monitored.

**Quantification of the financial impact:** This finding has a financial impact of 2.102,24 EUR (EU contribution) for project 18-01-1-0303.

**Actions taken by the auditee to mitigate the risk that the error is repeated in the future:**

Actions taken by the auditee are presented in audit response within finding no 13 presented within this section of Report.

Considering that AA issued final engagement report on 10<sup>th</sup> February 2021, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.

<b>Level of importance:</b> Intermediate	<b>Body and area concerned:</b> IPARD Agency – administrative control
<b>Finding number and title:</b> 5. Discrepancy of SA and Contract for allocation of funds with FWA (ref 4.1.3. of final audit report for Q1 and Q2)	
<b>Project(s) concerned:</b> General finding for recipients classified as natural persons	
<b>Description of the finding:</b> <p>According to Article 23(2) of the FWA, the IPA II beneficiary shall publish the name and locality of the recipient, the amount awarded and the nature and purpose of the awarded contract.</p> <p>On the other hand, according to Annex 8 of the Sectoral agreement and Article 5(9) of the Contract for allocation of funds, the Directorate for Payments has the right to publish on the web site of DP/MARD the following information on the Recipients:</p>	

- a) recipient name (only of legal entities; no natural persons shall be named),
- b) operation name,
- c) operation summary, etc.

According to DG AGRI Clarification letter on the publication of the list of the operations and recipients Ref Ares (2019)3898631 from 19/06/2019, the Sectoral agreement complements the FWA and in case of conflict between the SA and FWA, the provisions of the FWA shall prevail, i.e. the rule of the SA that only names of legal persons shall be published is considered as a discrepancy in which the Article 23(2) of the FWA prevails.

Besides that, according to the same Article of the FWA, the operating structures shall ensure that the recipient is informed that it will be included in the published list of recipients.

During administrative verification, the AA has identified that the IA published on the web site of the IA/MARD recipients names within the document List of operations and recipients, which is not in line with signed contracts and it was done without prior notification to the recipient.

**Recommendation:** In order to avoid any lawsuit by recipients (natural persons), the AA recommends signing amendments of contracts with all natural persons that received support, which will allow IA to publish their names as well as inform recipients about this requirement. In addition, the AA recommends updating of Annex Contract on the allocation of funds, in order to comply with FWA and DG AGRI requirements.

**Response of the Auditee: The recommendation is accepted**

An exemption from the procedures has been requested and approved by the NAO and as soon as approval is obtained, an annex to the contract will be made for all contracted recipients-natural persons.

After the change, i.e. the signed annexes to the contract, the AA will be informed that the recommendation has been implemented.

Information update, Dec 2020: partially implemented. Relevant Annexes are prepared and ready. After the signing of the annexes by the recipients, AA shall be informed.

Please find attached the mentioned Exception, as Information update to the finding no. 4.1.2.<sup>32</sup>

**Conclusion by the AA:** The implementation of the recommendation will be further monitored.

**Quantification of the financial impact:** This finding does not have any financial impact.

**Actions taken by the auditee to mitigate the risk that the error is repeated in the future:**

For the contracts signed after final engagement report submitted by AA, IA applied new version of the contract (approved by NAO in line with request for exception). However, IA didn't make annexes to the signed contracts before final engagement report submitted by AA, which are currently in power.

**Level of importance:**  
Intermediate

**Body and area concerned:**  
IPARD Agency – administrative control

<sup>32</sup> IA submitted evidences within response (documents are available on request by DG AGRI)

<b>Finding number and title:</b> 6. Deficiency of assessment of economic viability of recipient (ref 4.1.4. of final audit report for Q1 and Q2)
<b>Project(s) concerned:</b> General finding identified during review of recipient's ID no 18-01-1-0097 and ID no 18-01-1-0020, Measure 1
<p><b>Description of the finding:</b></p> <p>According to Article 11, point 2(b) of Sectoral Agreement, administrative verifications on applications for support shall ensure the compliance of the operation with applicable obligations established by the Agreements, including those of other obligatory standards and requirements. The verifications shall in particular include verification of the eligibility criteria set out in the IPARD II programme, commitments and other obligations of the operation for which support is requested.</p> <p>According to IPARD II Programme eligibility criteria, point 8.1.6.3. Economic viability, the recipient must confirm the economic viability of the holding, in accordance with the form of the business plan.</p> <p>During documentation review through audit of operations, the AA identified deficiency of administrative verification of business plan after on the spot control.</p> <p>Namely, difference between information provided in business plan (source of income, production capacity, etc.) and information provided in on the spot control report, which can affect economic viability of recipient, are not considered by DPAP (Department for publicity and authorisation of projects). DPAP checked quality and reliability of business plan before on the spot control, but after on the spot control there was no further assessment of accuracy of information provided in the business plan and comparison with information provided in OTSC report.</p>
<b>Recommendation:</b> IPARD Agency (DPAP) should improve procedures in order to adequately check economic viability of recipient taking into account information from OTSC report, particularly in situation of difference between business plan and information obtained during on the spot control.
<p><b>Response of the Auditee:</b> The second public call for M1 takes place according to procedure 2.0 and since more than half of the applications have been processed, it is not possible to request an exception from the checklist procedures, but the economic viability of the project is already underway and the trace of the check is in the form of a comment.</p> <p>For manual version 2.1 an exception from the procedures is approved and two questions were added to the section AFTER ACCEPTANCE ON-SITE ACCEPTANCE, and additional questions will be added by the first change of procedure.</p> <p>Information update, Dec 2020: Implemented. Please find attached the mentioned check-lists.<sup>33</sup></p> <p>Please find attached the mentioned Exception, as Information update to the finding no. 4.1.2.</p>
<b>Conclusion by the AA:</b> The implementation of the recommendation will be further monitored.
<b>Quantification of the financial impact:</b> This finding does not have any financial impact.
<b>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</b>

<sup>33</sup> IA submitted evidences within response (documents are available on request by DG AGRI)

IA improved procedures by adding a question related to issues presented in the finding. Considering that AA issued final engagement report on 29<sup>th</sup> December 2020, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.

<b>Level of importance:</b> Intermediate	<b>Body and area concerned:</b> IPARD Agency – administrative control
<b>Finding number and title:</b> 7. Cancellation of Invitation for offers(tender) (ref 4.1.5. of final audit report for Q1 and Q2)	
<b>Project(s) concerned:</b> General finding identified during review of recipient's ID no 18-01-1-0195 and ID No. 18-01-1-0058 Measure 1	
<p><b>Description of the finding:</b></p> <p>According to MoP of Department of publication and authorisation of projects, recipient is obliged to submit at least three offers from the independent suppliers for the investments related to Measure 1 and 3. In order to make sure that transparency of the procedure is respected, the recipient is obliged to fulfil the Annex DP-DPAP-00-29 "Invitation for the offers/quotations" and to send it to the potential suppliers. After receiving offers, recipient chooses lowest one and tender procedure can be considered as closed. Considering procurement best practices, tender could not be cancelled without appropriate explanation and supporting documents in order to secure transparency of the process and avoid protentional manipulations.</p> <p>During documentation review through audit of operations, we identified that many Invitations for offers (tenders) were cancelled without appropriate explanation and supporting documents.</p> <p>Namely, some recipients have announced two or three Invitations for offers with the same content, i.e. they announced new Invitation for offers without adequate explanation why previous Invitation for offers was cancelled. In addition, there is no further analysis by IPARD Agency about reasons for cancelling of invitation for offers. IA had communication with recipients by phone calls or emails related to cancelled tenders, and according to one of communications presented recipient has told that Invitation for offers was cancelled because offers from three suppliers did not differ significantly, which cannot be acceptable as adequate reason.</p>	
<p><b>Recommendation:</b> IPARD Agency should adequately check reasons for cancelation of Invitation for offers, so that recipients couldn't cancel tender without adequate explanation in order to secure transparency of the process and avoid potential tender manipulations.</p>	
<p><b>Response of the Auditee: Accepted</b></p> <p>At the moment, it is checked whether the recipient has already announced the tender and the recipient is asked by email to give an explanation, i.e. the reason for repeating the invitation.</p> <p>For easier and more precise verification, as well as assessment of the justification of the reasons for re-announcement of the invitation, a checklist for invitations to submit bids was prepared, which contains questions related to this part of the verification and thus will ensure that every reason for re-announcement of the invitation is verified.</p> <p>Check list attached<sup>34</sup></p>	

<sup>34</sup> IA submitted evidences within response (documents are available on request by DG AGRI)

Information update, Dec 2020: Implemented
<b>Conclusion by the AA:</b> The implementation of the recommendation will be further monitored.
<b>Quantification of the financial impact:</b> This finding does not have any financial impact.
<b>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</b> IA improved procedures by adding a question related to issues presented in the finding. Considering that AA issued final engagement report on 29 <sup>th</sup> December 2020, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.

<b>Level of importance:</b> Intermediate	<b>Body and area concerned:</b> IPARD Agency – administrative and on the spot control
<b>Finding number and title:</b> 8. Inadequate monitoring of fulfilment of eligibility requirements (ref 4.1.6. of final audit report for Q1 and Q2)	
<b>Project(s) concerned:</b> General finding identified during review of recipient's ID no 18-01-1-0097 and ID no 18-01-1-0020, Measure 1	
<b>Description of the finding:</b> According to Article 13 of the Sectoral Agreement, on-the-spot verifications shall verify that the operation has been applied for and implemented in accordance with the applicable rules and shall cover all the eligibility criteria, commitments and other obligations relating to the conditions for the granting of support, which can be checked at the time of the visit. They shall ensure that the operation is eligible. According to Mop (v.1.1) in case there is a request from DPAP and/or DAP for the additional control of minimum required criteria, the control will be performed. During administrative check, the AA auditors identified that DOSC controllers conducted two on the spot controls, one before approval of support and the other before payment. <b>During the first on the spot control, the controllers checked the eligibility criteria (number of animals, plantation area, etc.) while during the second on the spot control, i.e. before payment control, the controllers checked only whether the expenditure items referred to in the invoices and delivery note were present on-the-spot and their compliance with the eligibility criteria.</b> By analysing reports from on the spot controls before approval, the AA identified that for some recipient, facts that confirm the minimum eligibility requirements for support were not ascertained, for example, instead of planted area the DOSC controllers found only arable land, or in some other cases there were changes resulting in nonfulfilling of minimum eligibility requirements for example decreasing number of animals under eligibility limits which could be determined by insight into animal register. In such cases, in order to determine the eligibility of the recipient, it is necessary to confirm the facts presented in the request for support during on the spot control before payment.	
<b>Recommendation:</b> For all facts not confirmed by the first on the spot control, or cases where doubt/risk of fulfilling eligibility requirements exist, the AA recommends further coordination between DAP and DOSC controllers in order to improve flow of information necessary to ascertain all relevant facts related to eligibility requirements during the on the spot control before payments.	
<b>Response of the Auditee:</b> Accepted	

IA asked for exception for version 2.0 and 2.1, to add two questions in check list related to checking criteria in the case that the recipient is contracted on minimum criteria. The verification of criteria includes on the spot control if it is noted in request for on the spot control before payment. Also, this question will be added in new version of manual.

- For first call, version 1.1, all next cases will be checked and commented in check list.

Information update, Dec 2020:

Please find attached the mentioned Exception and check-list, as Information update to the finding no. 4.1.2.

#### **Conclusion by the AA:**

After analysis of DG AGRI reply related to the mentioned issues, received on 20.01.2021, AA can confirm that the eligibility criteria mentioned in Article 12 and 13 of the Sectoral Agreement, do not distinguish between eligibility criteria for the recipients or for the project/action, even though procedures entrusted by DG AGRI envisaged such difference.

IA should update procedure related to on the spot control before payment in order to verify that the operation has been applied for and implemented in accordance with the applicable rules and to cover all the eligibility criteria, commitments and other obligations relating to the conditions for the granting of support, which can be checked at the time of the visit.

The implementation of the recommendation will be further monitored.

**Quantification of the financial impact:** This finding does not have any financial impact.

#### **Actions taken by the auditee to mitigate the risk that the error is repeated in the future:**

Considering that AA issued final engagement report on 29<sup>th</sup> December 2020, and answer received from DG AGRI were on 20<sup>th</sup> January 2021, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.

<b>Level of importance:</b> Intermediate	<b>Body and area concerned:</b> IPARD Agency -administrative control
<b>Finding number and title:</b> 9. Deficiency of evaluating items before payment execution (ref 4.1.7. of final audit report for Q1 and Q2)	
<b>Project(s) concerned:</b> General finding identified during review of recipient ID no 18-01-1-0008, Measure 1	
<b>Description of the finding:</b> <p>According to Article 11, point 3(d) of Sectoral Agreement, Administrative verifications on payment requests shall include a verification of the reasonableness of the costs claimed, which shall be evaluated using a suitable evaluation system, and the payments made.</p> <p>During documentation review through audit of operations, the AA identified discrepancy of evaluation system for reasonableness of costs used by IPARD Agency in case of receiving three offers with different brand of item than primarily contracted.</p> <p>Taking into account that recipient announced invitation for offers, after signature of contract with IA, which contain just technical specification of the items not brand name, recipient could purchase item</p>	

with different brand name than contracted one. In this case IA accepts cost as reasonable using just one evaluation system (three offer rule), but regularly and in other cases IA accepted cost as reasonable using two evaluation systems (reference price database or evaluation committee before contract as well as three offer rules before payment) which should be aligned.

For example, one recipient has signed contract with IPARD Agency for purchasing of tractor in line with submitted applications which contain specific brand name and adequate technical specification of tractor. Before signing of contract, IA evaluated a price/cost using reference price database or evaluation committee for this specific brand name of tractor. After tendering procedure, in some cases, recipient is obliged to choose another brand name of tractor with same technical specification whose price/cost is not evaluated during contracting process neither through reference price database nor evaluation committee.

**Recommendation:** IPARD Agency should establish procedure of evaluating prices/costs of investment before payment to the recipient in situations when item's brand is different from contracting to payment process, using reference price database or evaluation committee.

**Response of the Auditee: Accepted**

IA asked for exception for version 2.0 and 2.1, to add one questions in check list for M1 related to checking prices in the reference price database or evaluation committee in case that recipient purchased brand of machinery/equipment that is different from the contracted brand. Also, this question will be added in the new version of MoP.

For the first call version 1.1, all next cases will be checked and write as comment in check list.

Information update, Dec 2020:

Please find attached the mentioned Exception and check-list, as Information update to the finding no. 4.1.2.

**Conclusion by the AA:** The implementation of the recommendation will be further monitored.

**Quantification of the financial impact:** This finding does not have any financial impact.

**Actions taken by the auditee to mitigate the risk that the error is repeated in the future:**

IA improved procedures by adding a question related to issues presented in the finding. Considering that AA issued final engagement report on 29<sup>th</sup> December 2020, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.

<b>Level of importance:</b> Intermediate	<b>Body and area concerned:</b> IPARD Agency – administrative control
<b>Finding number and title:</b> 10. Inadequate audit trail (ref 4.1.3. of final audit report for Q3)	
<b>Project(s) concerned:</b> ID no 18-01-1-0114, Measure 1	
<b>Description of the finding:</b>  During administrative verification of recipient under application with ID no 18-01-1-0114, the AA auditors have identified several shortcomings:	



*Inconsistency of documentation - By reviewing the registers for contracting and payment, the auditors identified that in every checklist fulfilled by Advisors I and II, as well as by supervision the answer is YES, i.e.*

*o the request for support is acceptable,*

*o no irregularities were found during on the spot control,*

*o the on the spot control report is in accordance with the case data and satisfactory.*

*Consequently, the request for payment is eligible for co-financing. However, even though IA assessed request for payment eligible for co-financing, IA sent to the recipient rejection letter on July 31st, 2020 with different arguments for rejection, out of which one is related to irregularity identified during on the spot control.*

*There is no adequate audit trail of how IA decided to reject request for payment when all controls performed by IA, presented to AA, show that request for payment is eligible for co-financing.*

*After recipient's appeal on rejection letter, IA in the final Decision for payment, from August 10<sup>th</sup>, 2020, stated that the request for payment is partially approved, i.e. that only part of the request is rejected.*

*There is no adequate audit trail of how the payment request was initially rejected in its entirety and then how IA finally decided to reject it in part.*

**Disagreement of the advisers in charge of the case** - *Based on the check of documentation and conducted interview with advisers responsible for the case file and with the Head of DAP, the AA auditors determined that there was a disagreement in the opinions while processing the payment request. As result, the initial final answer on completeness and eligibility check was afterward corrected from yes to no, by one of advisers. Visible correction was performed after the approval and payment to recipient, i.e. after closing of case file. Situation described is confirmed by the minutes of the Head of the DAP.*

*According to the MoP, after finishing all procedures of processing the request, the form "Payment request" shall be stamped with the IPARD stamp "PAID" on the label of the folder and in the first page of the request and then the whole case file shall be forwarded by Head of DAP in DP archive for archiving in a period of 7 years from the final payment in line with article 44 of SA.*

*There is no adequate audit trail on corrections of the case file, authorisation of correctness as well as accessibility to the closed case files.*

**Recommendation:** *The AA recommends the IA to ensure an adequate audit trail of the decision-making process on acceptance/rejection of the requests. IA should ensure consistency by ensuring adequate audit trail of every step in the decision-making process. For example, if there is rejection letter to recipient, the rejection letter should be supported by adequate control results i.e. how IA decided to reject request. If, during processing of case file, IA decided to change decision, there should be adequate audit trail on changes from rejection to partial approval as a result of additional control supported by relevant documents.*

*In case that there is a disagreement between the employees in charge of a certain case file (Advisor I, II, Head of Sector, etc.), the AA recommends the IA to convene a collegium and to record the conclusions of the collegium in the minutes which will include information that one of employees doesn't agree with the decision, and that collegium decided about rejection/approval. In addition, after archiving the payment request, i.e. after final payment, IA should ensure that the documentation is available for review only in accordance with the archiving procedures and the Sectoral agreement. If, in exceptional cases, working files should be changed, there should be adequate audit trail about, who, when and by whose authorisation files were accessed and corrected.*

**Response of the Auditee: Accepted**

After on the spot control, IA issued results of the examination procedure.

According to decree on the implementation and procedure of using funds from EU pre-accession assistance instruments, payment request will be rejected if irregularities or false data have been established - fraud for the payment of support funds.

Before the final decision was made, it was verbally agreed for partial approval of payment request, given that the suspicion on irregularity is less than 30% of the total investment, and does not affect the other part of the investment.

According to Sectoral agreement between the Government of Montenegro and the European Commission is stated that:

“When deciding on cancelling all or part of the Union contribution, the NAO and the IPARD Agency shall take into account the nature and gravity of the irregularities and the financial loss to the Union contribution.”

Given that the Sectoral agreement has greater legal force than the Decree, the IA acted as mentioned.

In the future, in cases like this, IA will make minutes from the internal meeting within the IA, and after statements on the examination procedure, the IA will fulfil a new check list if the decision is changed.

Also, training will be held, where employees will go through the procedure in order to avoid such mistakes.

In addition, the national Decree will be harmonized with the provisions in the Sectoral agreement.

**Conclusion by the AA:** The implementation of the recommendation will be further monitored.

**Quantification of the financial impact:** This finding does not have any financial impact.

**Actions taken by the auditee to mitigate the risk that the error is repeated in the future:**

Considering that AA issued final engagement report on 10<sup>th</sup> February 2021, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.

<b>Level of importance:</b> Intermediate	<b>Body and area concerned:</b> IPARD Agency – on the spot control
<b>Finding number and title:</b> 11. Weakness in on the spot verifications (ref 4.1.4. of final audit report for Q3)	
<b>Project(s) concerned:</b> ID no 18-01-1-0114, ID no 18-01-1-0303, Measure 1	
<b>Description of the finding:</b>  On the spot verifications are defined within Art. 12,13 and 15 of the Sectoral Agreement, as well as in Art. 30 and 31 of the Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme). According to these articles, on the spot control is carried out in order to establish the factual situation on the ground in relation to the data and evidence specified in the request for support/request for payment. Control team shall take measurements and photos of all existing capacities which are relevant or related to the planned investment and that were stated in the application/business plan, as well as measurements and photos of implemented investment.	

*During administrative and on the spot verification of recipients under application ID no 18-01-1-0114 and ID no 18-01-1-0303, we have identified weaknesses in performed on the spot controls.*

*Namely, for recipient under application ID no 18-1-1-0114, part of the investment was related to the renovation of the existing irrigation system. During fieldwork before contracting, the controllers did not check in detail and document by photos the existing irrigation system, location, parts of the system, location of planned investment, etc.*

*After receiving the Request for payment, the controllers conducted on the spot check control of finished investment, where they identified that the contracted irrigation system was built in 2018, i.e. before submitting the request for support. Even though, in this case, on the spot control shows very effective functioning, they didn't have additional supporting documents which could be collected during on the spot control before contracting if they checked in details existing irrigation system.*

*On the other hand, in case of recipient under application ID no 18-01-1-0303, part of investment was related to well drilling and installations and construction of irrigation system. During on the spot control before contracting, the controllers took picture of the location where the recipient planned to drill the well. During the second on the spot control before payment, the IA determined that the well had been drilled, equipment installed and irrigation system built, but did not compare the location of implementation of investment with the location presented by recipient before contracting. Part of submitted Request for payment related to well drilling and irrigation system was approved in total by the IA.*

*During AA administrative and on the spot verification, the auditors identified that the well was drilled and installed in 2018, i.e. before submitting the request for support and at a different location than the one marked by the IA controllers before contracting (finding No 3 of this section of Report).*

**Recommendation:** *The AA recommends the DOSC to check every fact stated in the request for support and every part of implemented investment that can be checked at the time of the visit and to document it by photos.*

*Also, the AA recommends the DOSC controllers to save the GPS coordinates where the investment in immovable items is planned, i.e. the place where drilling of wells, construction of a facility, etc. is planned and to include saved coordinates in on the spot check report. This information should be used during on the spot control before payment in order to allow controllers to compare location presented by recipient and real location of implementation of investment.*

**Response of the Auditee: Accepted**

*Internal meetings will be held for employees in Department for on the spot control to raise awareness of controllers when it comes to investments in well drilling and installations and construction of irrigation system, and the internal procedures will be explained with more details in order to have equal approach in controlling those investments.*

**Conclusion by the AA:** *The implementation of the recommendation will be further monitored.*

**Quantification of the financial impact:** *This finding does not have any financial impact.*

**Actions taken by the auditee to mitigate the risk that the error is repeated in the future:**

*Considering that AA issued final engagement report on 10<sup>th</sup> February 2021, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.*

<b>Level of importance:</b> <i>Intermediate</i>	<b>Body and area concerned:</b> <i>IPARD Agency – administrative control</i>
<b>Finding number and title:</b> <i>12. Failure in notification about performed hidden works (ref 4.1.5. of final audit report for Q3)</i>	
<b>Project(s) concerned:</b> <i>ID no 18-01-1-0303, Measure 1</i>	
<b>Description of the finding:</b> <p><i>According to Article 51(1) of FWA “the IPA II beneficiary entrusted with budget implementation tasks of IPA II assistance shall prevent, detect and correct irregularities and fraud when executing those tasks. To this end, the IPA II beneficiary shall carry out, in accordance with the principle of proportionality, ex ante and ex post controls including, on-the-spot checks on representative and/or risk-based samples of transactions, to ensure that the actions financed from the budget are effectively carried out and are implemented correctly.”</i></p> <p><i>In line with abovementioned, Article 8 (11) of Contract for allocation of funds states: “The Recipient is obliged to inform by letter or telephone or mail the Directorate for the timeframe for performing the hidden works during mounting of equipment which cannot be controlled during on-the-spot control before payment. “</i></p> <p><i>During administrative and on the spot verification of recipient under application ID no 18-01-1-0303, certain hidden works were identified. However, after performed on the spot control and review of case files which includes checklist and other supporting documentation, we can conclude that recipient did not inform the IPARD Agency about performed hidden works in accordance with Art. 8 (11) of Contract for allocation of funds.</i></p> <p><i>Due to nature of hidden works, for example well drilling, IA could not perform measurement after implementation of investment. Instead, recipient should inform IA of time of performance of hidden works in order to allow on the spot controllers to perform adequate measurement. By insight in on the spot control check list related to same recipient we identified that more than 30 % of the items couldn't be checked during on the spot control before payment, which presents high risk for potential manipulation, which is not acceptable.</i></p>	
<b>Recommendation:</b> <i>The AA recommends the IA to initiate necessary steps in order to ensure compliance with the provisions of the FWA and Contract for allocation of funds and to prevent possible misuse and manipulation of IPARD funds. Recipients should inform IA about hidden works, particularly when such works could not be confirmed by third party documents.</i>	
<b>Response of the Auditee: Accepted</b> <p><i>The IA will communicate with the recipients to raise awareness about their obligation to inform the IA before performing activities involving hidden works which cannot be confirm by third party documents as the IA is obliged to conduct field control during hidden works.</i></p>	
<b>Conclusion by the AA:</b> <i>The implementation of the recommendation will be further monitored.</i>	
<b>Quantification of the financial impact:</b> <i>This finding does not have any financial impact.</i>	
<b>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</b>	

Considering that AA issued final engagement report on 10<sup>th</sup> February 2021, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.

<b>Level of importance:</b> Intermediate	<b>Body and area concerned:</b> IPARD Agency – administrative control
<b>Finding number and title:</b> 13. Deficiencies in the work of Evaluation Committee (ref 4.1.1. of final audit report for Q4)	
<b>Project(s) concerned:</b> ID no 18-01-1-0344, Measure 1	
<p><b>Description of the finding:</b></p> <p>According to Art. 29 of the Decree, verification of the reality and reasonableness of costs presented in the Request for support, shall be performed on the basis of:</p> <ol style="list-style-type: none"> <li>1) reference price database and or</li> <li>2) comparisons of different offers; and or</li> <li>3) evaluations of the evaluation committee.</li> </ol> <p>During administrative verification of recipient under application ID no 18-01-1-0344, we have identified deficiencies, as well as unequal approach in the work of the Committee for evaluation (hereinafter EvC). Namely, among other items, the recipient has applied for installation of a thermoregulation system in greenhouses for mushroom production and submitted an offer from company “Frigo Elektro” LLC.</p> <p>According to the procedures, the IA has requested the EvC's opinion on the reasonableness of “Frigo Elektro” LLC offer prices. In the submitted opinion it is stated that after detailed market research, the EvC determined that some prices from the offer (item no. 1.1, 1.2, 1.6, 5.14, 6.1 and 6.2) are not reasonable and attached the results of market research, i.e. the reasonable prices.</p> <p>However, based on the EvC offer analysis, the AA identified that the EvC did not calculate the variation of 5 % (for items over € 1.000,00 without VAT) or 15% (for items below € 1.000,00 without VAT) as defined by the EvC's procedure of work and in order to maintain the same approach to all applicants.</p> <p>Consequently, the prices proposed by the EvC as reasonable (without variation) were contracted and paid to the recipient, which means that the recipient's eligible costs for above mentioned items were calculated in a smaller amount than required for the value of the variation, i.e. for 1.447,14€ without VAT, out of which public contribution amounts 940,64€ (EU part 705,48€, national part 235,16€).</p> <p>On the other hand, for items 5.1 to 5.6, the cumulative offered price is 6.914,60 € without VAT, while the price obtained by market research is 5.339,30 €. In the explanation of the EvC it is stated that since the offered price is 1.29% higher than the market research price and that it also includes commissioning, the offered price can be accepted as reasonable.</p> <p>Having in mind that offer submitted from recipient includes commissioning and prices from market research doesn't, price can be accepted as reasonable. However, the AA identified calculation error by EvC, more precisely the deviation is 29.5%, not 1.29% as EvC stated in report.</p> <p>There is a potential risk that the EvC, and thus the IA does not treat recipients equally and apply different approach while assessing the reality and reasonableness of costs, which consequently, may cause financial consequences for the recipient, disrupt the Agency's and IPARD reputation as well as affect the absorption rate of IPARD funds.</p>	

<p><b>Recommendation:</b> The AA recommends the IA and the EvC to assess the reasonableness of costs with due diligence, following relevant procedures in order to maintain the same approach to all applicants.</p>
<p><b>Response of the Auditee: Recommendation is accepted.</b></p> <p>For ongoing calls, the commission's control system has already been improved, to ensure the same access to all recipients, by monitoring the price for each user and for each requested item in the internal DPAP tables, and thus all users for the same items approves the same price</p> <p>Furthermore, the system of control over the work of the evaluation commission will be further improved, by forming a special sector, that will have the commission for evaluation and reference price base, as well as monitoring the procurement procedure and assessing the economic viability of projects.</p> <p>Also, a meeting will be held with all members of the evaluation commission and they will be presented with all audit findings related to their work in order to raise awareness of the importance of the work they perform and a presentation will be held at which all steps of the evaluation committee procedure will be gradually presented.</p>
<p><b>Conclusion by the AA:</b> The implementation of recommendation will be further monitored.</p>
<p><b>Quantification of the financial impact:</b> The AA determined underpayment, which is not considered while calculating the error rate.</p>
<p><b>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</b></p> <p>Considering that AA issued final engagement report on 3<sup>rd</sup> March 2021, AA will follow up and report about actions taken by the auditee within AAAR for FY 2021.</p>

## 5.8.2 Non-operational transactions

### 5.8.2.1 Substantive testing of irregularities/debts

#### Finding:

Regarding irregularities and debts, the AA conducted both testing: compliance and substantive testing. During compliance testing within system audit and substantive testing of irregularities and debts as well, certain deficiencies were noted related to registration in the debtor's ledger and actions in collecting the outstanding debts. Findings (finding (1) and (2)) are presented in section 4.4.1 of this Report.

Regarding process of establishing irregularities, the AA concluded that there was a large time gap from receiving information about suspicion of irregularity to determine the irregularity. Considering the significance of the irregularity management and the fact that inadequate and inefficient irregularity management may increase the possibility of fraud, which except financial can have a negative impact on the reputation of the IPARD program and process of allocating the funds, the AA recommended IA to ensure more efficiency regarding this process which implies initiating proceedings for establishing irregularities as soon as possible from the day of receiving information about suspicion of irregularity.

As regards IA's actions in collecting the outstanding debts, IPARD Agency has sent to the Protector of property and legal interests of Montenegro notification on initiating enforcement proceedings on 13<sup>th</sup> January 2021 in case of recipient under ID number 18-01-1-0228. According to the evidences collected by AA, IPARD Agency registered debts in debtors' ledger on the day when decisions for recovery of funds were made. Decision for recovery of funds for mentioned recipient was made on 30<sup>th</sup> September 2020 and thus the deadline for recovery of funds expired on 28<sup>th</sup> October 2020. Therefore, it was recommended to IA to initiate enforcement proceedings as soon as deadline for recovery of funds stated in the Decision on recovery of funds expires.

Assessment:

Having in mind that these findings do not have financial impact and they are not of systemic nature. AA assessed this part of the system as "Works".

**5.8.2.2 Substantive testing of advances**

Considering that there weren't advances this part is not applicable.

**5.8.2.3 Substantive testing of the IPARD Euro account**

Findings:

AA didn't identify any deficiency related to movements on IPARD Euro account.

Assessment:

Having in mind that there weren't any findings, this part of the system "Works well".

**5.9 Details of the most likely error rate (total error rate<sup>35</sup>) 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.**

The information is presented in section 5.7.

**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.**

As presented in section 5.7 of this Report, total error rate is above materiality level which impacts on audit opinion related to the legality and regularity of expenditures declared, but not on the reliability of the annual financial reports or statements having in mind that due to irregularities identified IPARD Agency should initiate procedure for recovery of funds, i.e. to act in accordance with the article 50 of Sectoral Agreement. As presented, financial errors are identified within the same application ID no 18-01-1-0303, measure 1, which significantly impacts on overall conclusion and audit opinion (AA sampled 33 payments in total out of which in 1 identified financial errors).

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<sup>35</sup> As defined in Article 28(14) of Commission Delegated Regulation (EU) No 480/2014.

Main corrective measures refer to the strengthening capacities of IPARD Agency and organising adequate trainings for employees within IPARD Agency, particularly newcomers who don't have adequate experience in dealing with IPARD funds.

In accordance with the DG AGRI Guideline no 2 on the Audit Strategy, error evaluation is presented in Annex 2 "Substantive testing of operational transactions" as a part of this report.

**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<sup>36</sup>, including flat rate or extrapolated corrections.**

There weren't any self-corrections during the FY 2020.

**5.12 Residual total error rate<sup>37</sup> following the implementation of the above-mentioned corrections and significance for the audit opinion.**

Not applicable for IPARD.

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

Not applicable, AA didn't perform audit of the complementary sample.

**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.**

During FY 2020 IPARD Agency has reported four cases of irregularities through IMS system. Up to now three cases have been closed and one is still open. Details regarding these cases with relevant dates are presented in table below:

Application ID number	Detecting date of suspicion of irregularity	Institution which detected suspicion of irregularity	Date of Report for suspected /detected irregularity	Amount to be recovered		Date of decision on recovery of funds/return receipt	Date of recovery of funds	Case status
				EU part	National part			
18-01-1-0278	30 <sup>th</sup> December 2019 (Draft	Audit Authority	29 <sup>th</sup> June 2020	216,59€	72,19€	29 <sup>th</sup> June 2020/30 <sup>th</sup> June 2020	6 <sup>th</sup> July 2020	Closed

<sup>36</sup> This concerns both corrections on the audited sample units and corrections implemented as a result of the total error rate.

<sup>37</sup> Total errors minus corrections referred to in paragraph 5.11, divided by the total population.



	report on Audit of Operations)							
<b>18-01-1-0127</b>	30 <sup>th</sup> December 2019 (Draft report on Audit of Operations)	Audit Authority	<b>6<sup>th</sup> March 2020</b>	99,85€	33,28€	17 <sup>th</sup> June 2020/19 June 2020	24 <sup>th</sup> June 2020	Closed
<b>18-01-3-0005</b>	4 <sup>th</sup> March 2020 (Final report on Audit of Operations)	Audit Authority	<b>17<sup>th</sup> June 2020</b>	309,37€	103,13€	22 <sup>nd</sup> June 2020/25 <sup>th</sup> June 2020	26 <sup>th</sup> June	Closed
<b>18-01-1-0228</b>	4 <sup>th</sup> March 2020 (Final report on Audit of Operations)	Audit Authority	<b>17<sup>th</sup> September 2020</b>	48.900€	16.300€	30 <sup>th</sup> September 2020/12 <sup>th</sup> October 2020	Not been recovered yet	Open

As regards the open case, i.e. the recipient with ID No 18-01-1-0228, the IA has updated Report through the IMS system where initiated proceedings were described in order to collect the outstanding debts. Therefore, the IA sent to the Protector of Property and Legal Interests of Montenegro request on 13<sup>th</sup> January 2021, to ask for the following steps since the recipient has not returned the funds within the legal deadline of 28<sup>th</sup> October 2020 – 15 days from the day of receiving the Decision on the recovery of funds. Thus, since this day IA has started to calculate the interest in accordance with relevant regulations.

Also, through IMS system the IA has reported that the recipient filed a lawsuit against the Decision on recovery of funds, received in the Ministry on 31<sup>st</sup> December 2020.

**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.**

This information is presented in section 5.8, for each finding separately.

**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.**

Section not applicable for IPARD, since the Programme does not include any management of the financial instruments.

## **5.17 Analysis of the principal results of the audits of negative items**

All negative items audited correspond to the decisions of the country or of the Commission, and are aligned with the amounts included in the accounts on amounts recovered during the year and amounts to be recovered at the end of the year.

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

Results of the audit of samples transactions confirm assessment presented in matrices, part 4.6 of this report. Management and control system functions effectively, but further improvements are necessary, particularly for the part “control activities: Validation and authorisation – administrative and on the spot controls”, as presented in sections 4.4.2 as well as 5.8 of this Report.

AA considers that deficiencies identified are mainly the result of lack of experience and knowledge of IA employees. Considering that IA started with execution of payments to recipients in FY 2019 (only 8 payments) and that during FY 2020 they executed 161 payments, there is a significant increase of workload which creates the possibility for errors due to the complexity and culmination of the whole process of implementation of the IPARD II Programme which the IA truly faced for the first time. At the same time, AA emphasises that out of 33 transaction tested within substantive testing, only one transaction contains financial error which indicates proper functioning of controls.

Despite the fact that IA implemented comprehensive training programme during FY 2020, AA strongly recommend the IA to continue organising trainings for employees dealing with administrative and on the spot control as well as to speed up process of signing of contracts with the recipients in order to mitigate risk of de-commitment which is currently high.

## **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 account**

The audit body that has carried out audit of the annual financial reports/annual accounts is Audit Authority of Montenegro. The AA, carried out audit work, following section 8 of Guideline 2, in order to verify the completeness, accuracy and veracity of the annual accounts. There weren't any other bodies/persons involved in audit work for the annual acceptance of accounts.

List of AA team members involved in audit of annual accounts

<i>Body</i>	<i>Name</i>	<i>Position</i>	<i>Experience in audit</i>		<i>Type of appointment : permanent (P) or</i>	<i>Chartered accountant / certified auditor</i>	<i>Type of audit work carried out by the body/person</i>
			<i>General</i>	<i>IPARD</i>			

					<i>temporary (T)</i>		
<b>AA</b>	<i>Luka Đukanović</i>	<i>Head of Department for audit of the program of agricultural and rural development</i>	<i>8 years and 10 months</i>	<i>8 years and 10 months</i>	<i>P</i>	<i>Certified Auditor/CIA</i>	<i>Preparation of engagement plan. Coordination, supervision, review, and support. Final report</i>
	<i>Rina Mučaj Demirović</i>	<i>Authorised Auditor</i>	<i>7 years and 9 months</i>	<i>6 years and 9 months</i>	<i>P</i>	<i>Certified auditor/ State auditor</i>	<i>Review of AMD</i>
	<i>Maja Klikovac</i>	<i>Authorised Auditor</i>	<i>5 months</i>	<i>5 months</i>	<i>P</i>	<i>Certified auditor/ CIPFA, State auditor</i>	<i>Audit of financial statements/reports – annual accounts</i>
	<i>Marko Tomčić</i>	<i>Junior Auditor</i>	<i>2 years and 11 months</i>	<i>2 years and 11 months</i>	<i>P</i>	<i>Certified auditor/ State auditor</i>	<i>Reconciliation</i>

## 6.2 Description of audit approach used to verify the elements of the annual financial reports or statements/annual accounts

The Audit Authority performs the audit of accounts as defined in Article 12(2) and 23(1) (b) of Commission Implementing Regulation (EU) No 447/2014.

The audit of accounts was carried out in line with the Audit Strategy following requirements from the DG AGRI Guideline no 2 on the Audit Strategy and Audit Authority's manual of procedures, taking into consideration Guideline no 5 "IPARD II Annual Accounts".

The audit of accounts focuses primarily on the information in the financial reports submitted by the NAO taking into consideration quarterly declarations of expenditure submitted to the European Commission for the financial year 2020 (in April, July, October 2020 and January 2021) as well as accounting records and other information received from the NF and IPARD II Agency.

The IPARD II annual accounts, which are in the scope of the audit of accounts, compose of the annual financial reports and statement, as follows:

- Form D2 - the revenues and the expenditure of the IPARD II programme, showing Union, national and total revenues and expenditure summarised by measures and presented on an annual basis;
- Table of differences by IPARD II programme and measure - between the expenditure and the revenues declared in the annual accounts and that declared for the same period, accompanied by an explanation for every difference;

- c) Debtors' ledger - table of the amounts to be recovered at the end of the financial year (debtors ledger);
- d) List of payments – list of all payments made in the financial year;
- e) Balance sheet;
- f) Income statement;
- g) Cashflow statement.

In view of the above the Audit Authority performed following checks:

- Timeliness, completeness, accuracy and reliability of the annual accounts, i.e. carries out reconciliations between evidences and reports of the NAO/NF and IPARD II Agency;
- Compliance with formal requirements as well as compliance with quarterly reports and other records and data held by the NAO / NF and IPARD Agency.

**6.3 Indication of the conclusions drawn from the results of the audit in regard to the completeness, accuracy and veracity of the declaration of expenditure and financial statements, including an indication on the financial corrections made and reflected in the declaration of expenditure and financial statements as a follow-up to the results of the audit on transactions/operations**

Audit conclusion is based on the analysis of procedures, information, data, documents, reports and meetings with auditees, adequately documented in control lists and working papers related to the audit of accounts.

Based on the above mentioned, the AA concluded that the annual accounts (financial reports and statements) submitted to the European Commission for financial year 2020 are complete, accurate and veracious in all material aspects, and have been prepared in accordance with the requirements, except issues identified and presented in findings below.

Findings:

**1) Deficiency in the filling out the form D2-Annual declaration of accounts for financial year 2020**

According to Article 45 of the Sectoral Agreement, the Annual Accounts, among others, should include “the revenues and the expenditure of the IPARD II programme, showing Union, national and total revenues and expenditure summarized by measures and presented on an annual basis and submitted using Form D2 as set out in Annex 6 to this Agreement”.

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: NAO/NF*

Given the fact that the Annual Declaration including supporting tables, presents a crucial document of the Annual Accounts, it is necessary to pay special attention when filling out each prescribed form.

AA identified that the form D2-Annual declaration of accounts for financial year 2020 contain following deficiency:

- In the column „European Union part that has been declared to the Commission in quarterly payment applications for the financial year 2020 in EUR“ amounts regarding measures „Investments in physical assets of agricultural holdings“ and „Investments in physical assets concerning processing and marketing of agricultural and fishery products“ present gross amount of EU part of declared expenditure made in the financial year which is not aligned with the Guideline 5 for Annual Account. According to the Guideline – Chapter 2.4.2. Annual declaration table, instead of gross there should be net amount of EU part of declared expenditures. Consequently, in Form D2 – annual declaration of accounts for financial year 2020 the amount of 3.113.361,77€ should stand instead of 3.113.678,21€ for measure „Investments in physical assets of agricultural holdings“ as well as 343.771,38€ instead of 344.080,75€ for measure „Investments in physical assets concerning processing and marketing of agricultural and fishery products“. Finally, the total amount of D2 should be 3.457.133,15€ instead of 3.457.758,96€.

**Recommendation:** The AA recommends preparing annual accounts with due diligence, following relevant templates and guidelines issued by EC.

**AA follow up status: Open**

## 2) Shortcomings in compiling the Balance Sheet

ICF requirement 3. (a)(ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles; (a)(x) Reconciliation procedures ensuring that wherever required accounting balances are reconciled against third-party information.

*Level of priority: Intermediate*

*Body/-ies concerned by the finding: NAO/NF*

Bearing in mind the above-mentioned requirements and generally accepted accounting practice, certain deficiencies were identified during the audit of Annual Accounts regarding the Balance Sheet:

1. Amounts presented in the following accounts have been miscalculated:
  - account 115-1 (receivables from EC) – according to Manual of procedures for Accounting IPARD (hereinafter: Manual of procedures) of Directorate for Management Structure account 115-1 should be used for recording of receivables from EC. During the review of documentation related to the audit of annual accounts, which includes analytical cards of accounts, financial reports, requests for funds, changes in the IPARD Euro account etc., it could be concluded that the balance on the above-mentioned account should be zero instead of amount of -625,81 which is presented in the Balance Sheet. This miscalculation was caused by wrong recording of “Form D1 – Declaration of expenditure and revenue which should be recorded in gross amount instead in

net amount of funds. Furthermore, the total number of receivables amounts to 49.594.75 instead of 48.274.19 (account 115);

- account 115-7 (receivables for interest on debts) – according to Guideline No 5 (IPARD II ANNUAL ACCOUNTS): “the EU amount of calculated, and not repaid, interest should remain noted in the debtors' ledger and should be returned to the Commission in case that interest has been later recovered from the debtor”. Considering this provision, DMS is obliged to calculate and record interest on debts. Therefore, in the Balance Sheet the account 115-7 should be added where the amount of 694,75 should be recorded which presents the EU part of calculated interest on outstanding debt of 48.900.00€;
  - account 291-1 (liabilities to the EU contribution-long term Prepayments-advance payment) – according to Manual of procedures this account should be used for recording of liabilities to the EC for prepayments. Therefore, on this account only liabilities related to prepayments should be recorded, although DMS used this account for recording all obligations which included obligations for prepayments and interim and final payments as well. Accordingly, the amount of 6.091.194,16 should stand instead of the amount of -6.090.568,35 which presents obligation for prepayment/ interim and final payments from EC.
2. Amounts presented regarding liabilities have negative value – During review of financial statements, it was noted that all amounts in the Balance Sheet related to the liabilities which include liabilities to IB/IA from EU contribution, liabilities for amounts due to the EC – recoveries and long-term liabilities have negative value instead of positive;
  3. There is not separated account for recording liabilities due to interest on debts – during review Manual of procedures and Balance Sheet, it was noted that account 281-1 (liabilities to the EC-recoveries) is used for recording liabilities to the EC for recoveries from IA and there is no account predicted for recording ANNEX 6 8 liabilities related to interest on debts. Given the fact that there is an account for recording receivables for interest on debts, there should be added appropriate account for recording liabilities for interest on debts due to clearer insight into liabilities regarding debts.

**Recommendation:** The AA recommends preparing annual accounts with due diligence, following guidelines issued by EC, international accounting standards and generally accepted practice. In addition, DMS should include separate account for example account 281-7 for recording liabilities for interest on debts as well as to merge accounts 291-1 and 291-3 considering good practice and consequently adopting the Manual of procedures.

**AA follow up status: Open**

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

Not applicable. AA did not identify any problem of systematic nature.

### **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**

Within this section AA included all findings, presented in AAAR for FY 2018 and 2019, which are not closed during FY 2019<sup>38</sup>. In addition, AA provides information on the state of play of the implementation of DG AGRI's findings/recommendations which are not closed during FY 2019 or earlier – such as related to entrustment of budget implementation tasks and/or procedural modifications. Through the follow up process AA covered open recommendation presented in the following DG AGRI letters:

- Ares (2020)4146723 dated 06/08/2020,
- Ares (2020)2004695 dated 09/04/2020,
- Ares (2019)7226447 dated 22/11/2019,
- Ares (2019)4293298 dated 05/07/2019,
- Ares (2018)3685915 dated 11/07/2018,
- Ares (2017)5220251 dated 25/10/2017,
- Ares (2017)2326805 dated 05/05/2017,
- Ares (2016)5055192 dated 06/09/2016,
- Ares (2016)2011812 dated 27/04/2016.

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<sup>38</sup> Findings considered as closed within FY 2019 or earlier are not part of this Report.

AAAR	Finding	Follow-up
<p>FY2019 System Audit Final report (26/12/2019)</p>	<p><b>4.2.5 Deficiencies in process of administrative verification and ineligible beneficiary</b></p> <p><b>Body/-ies concerned: IPARD Agency</b> <b>Level of priority: Major</b></p> <p>ICF requirement 3. (a) Selection and development of control activities - ensuring that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organization.</p> <p>During the review of contract within application ID no 18-01-1-0343 the AA identified the following:</p> <p>1. According to the Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme) 16/16, 4/18, 11/18, Article 12 - Beneficiaries of Measure 1, when submitting application, shall also submit proof of ownership of the land or facility where the investment is made or of a land use right, for a period of at least seven years from the date of submission of the application. Furthermore, eligibility condition for olive growing sector is at least 0.5 ha under olive plantations. The lease agreement for olive plantations, between recipient and lessor was signed on 14.05.2018 for a period of 24 months. At the same time, an Annex to the contract was submitted, stating that the lease of agricultural land relates to a period of 7 years. Annex to the contract was notarized on 16.05.2019. – a year after submitting request for support, without any request from IA, which indicate that this document is submitted to the case file by circumventing of internal procedure and there is no sufficient audit trail about receiving this document.</p> <p>2. According to the IPARD Programme, Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme) 16/16, 4/18, 11/18, Article 15 and Public call - Funding support for the implementation of Measure 1 may be granted for investments with a total value of eligible costs from € 10.000,00 to € 500.000,00. The initial request for support was in amount of € 771.198,21 (excl. VAT). By insight into the request it is not clear for which part of the investment exactly the support is sought, but business plan (page 67) makes it clear what is planned to be implemented through the first phase of the project: purchase of mechanization €</p>	<p><b>Partially closed</b></p> <p>Considering auditee's response and the fact that recipient realised investment and submitted payment request as well as that IA executed payment during 2020, the part of the finding is not relevant. However, the IA was aware of risks presented in finding and acted accordingly. During compliance testing for FY 2020, AA used dual testing-purpose and this project wasn't randomly chosen within sample and consequently wasn't subject of compliance or/and substantive testing.</p> <p>The IA did not include in the new versions of the MoP the possibility for experts support for assessment of economic viability in cases of specific projects.</p>



73.300,00, road - € 327.600,00, infrastructure - € 177.000,00, olive growing and maintenance - € 127.438,02 and maintenance of olive groves in year II € 65.860,19 – 5 items in the amount of € 771.198,21 which is in compliance with amount from initial request for support. Just two offers were submitted - one for seedlings (€ 0.55 per piece) in total amount of 15.719,00 € and the other for internal traffic in amount of 15.000,00 € /ha.

By submitting additional documentation, i.e. new request for support and a new business plan - instead of the requested € 771.198,21, the amount of the investment is € 499.059,81 in line with a total value of eligible costs. Within new request for support the construction of the investment was significantly changed in the following:

- mechanization is not requested;
- the offer for seedlings from the same company has increased significantly and instead of the old price of € 0,55 now the amount is 5-7 € per seedling, which increased the original offer by € 64.739,00;
- infrastructure (irrigation and fencing) is increased by € 85,190.00;
- new offer for the planting service of € 27.000,00 was also submitted;
- offer for the construction of a section of road (street no. 2 only) at a lower amount than originally planned - (both streets) for € 198.188,19.

Significant modification of the initial request and overall structure of investment is not allowed after closing a public call. It is obviously that initial request is not fulfilled adequately and that recipient didn't have precise picture of the part of investment which would be implemented through IPARD.

3. The contract on the lease of the land on which the investment is planned was concluded between the Government of Montenegro and recipient for a period of 30 years, on May 9<sup>th</sup>, 2018. Article 3.1 of the contract states that it enters into force when the following conditions are met:

- Handing over the leasehold property without the burden and restrictions of any kind;
- By submitting and accepting the first guarantee for fulfilment of the Investment Program;
- By paying the amount of € 15.801,45 rent for the first year of the lease.

At the same time, Article 3.2 defines: "Upon fulfilment of all mentioned requests, the parties shall sign the closure protocol." IPARD Agency did not verify if the contract entered into force on the day of submitting the request for support from the beneficiaries and if recipient fulfilled eligibility requirements related to the article 12 of Decree. Additionally, by review of documents related to

	<p>the ownership of land under lease from the Directorate for real-estate, KO Vranovici, no. 384 and no. 357, the AA identified that there are some kind of the burden and restrictions on this land.</p> <p>4. By analysing new business plan, the AA identified that the business parameters necessary to prove the viability of the investment are negative, i.e. Net Present Value of the project is negative in all years. Annex to the DPAP Manual (DPDPAP-00-04 Business Plan Assessment, part 2.1) clearly states that projects with a negative NPV should be rejected. In addition, further analysis of business plan shows that, even though eligibility condition for olive growing sector is at least 0.5 ha under olive plantations before submitting a request for support for which they have a lease contract, recipient didn't take into account these number of plants and related income, expenditures and other parameters, which could be a red flag for artificial conditions required for obtaining a support.</p> <p>5. The AA identified the applicant's statement that the supported investment will be owned by the applicant prior to submitting the payment claim. IPARD Agency states in a letter addressed to the Managing Authority on 11.05.2018 that the investment will not be owned by the beneficiary, because it is subject to a lease agreement and requested opinion on that issue. MA reply "There is a legal requirement in the IPARD regulatory framework which is applicable here: Article 31 (b) FwA – Investments projects under rural development programmes shall remain eligible for Union financing provided they do not, within five years from the final payment by the operating structure, undergo a substantial modification". The Decree, which elaborates and defines the conditions for obtaining support, clearly stipulates that the investment must be owned by the applicant at the time the payment claim is submitted. Opinion of the Managing Authority (which is not directly related to the issue) could not be the basis for the derogation of the provisions of the Decree and it is not clear how recipient can prove ownership during submission of request for payment.</p> <p>The AA recommends initiating a procedure for additional checking of eligibility of recipients due to the facts identified and presented in findings. If further analysis shows that recipient is not eligible for support, IA should terminate the contract with recipient. In addition, IA should organize additional training for employees dealing with the authorization of commitments in order to strengthen internal control and avoid similar deficiencies in future.</p>	
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<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.2.8 Deficiencies within administrative control of application ID no 18-01-3-0019</b></p> <p><b>Body/-ies concerned: IPARD Agency</b></p> <p><b>Level of priority: Major</b></p> <p>ICF requirement 3. (a) Selection and development of control activities - ensuring that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organization.</p> <p>According to Article 11, point 2(f) of SA, the administrative verifications shall in particular include verification of the reasonableness of the costs proposed, which shall be evaluated using a suitable evaluation system, such as reference costs, standard unit costs, a comparison of different offers or an evaluation committee.</p> <p>During review of documentation of IPARD Agency, related to application ID no 18-01-3-0019, for which expenditures have not been certified yet, the AA identified deficiencies in calculation within offer submitted by supplier related to construction works, as well as deficiencies relating to offer for main project.</p> <p>Namely, during check of new offer (old one was incomplete and new one is required from recipient), advisors assumed that all items within offer were calculated without VAT and at the end of the calculation they added a VAT (21%). Looking at the offer itself and comparing it with the old one, the AA concluded that some items were calculated with VAT included. This error increased the offer and subsequently the contract by 26,582.88 €. Additionally, the AA identified that for the purpose of the main project development, the recipient signed a contract for the project development with "Asia Engineering" LLC, which accordingly submitted an offer and invoice in amount of 7,650.00 € excluding VAT, which was accepted by the IPARD Agency. However, by looking at the main project itself, the AA found that it was done by other company, which means that the contract with the accepted company was not implemented thus this part of investment is ineligible for support.</p>	<p><b>Closed</b></p> <p>Since the Contract with recipient under application ID no 18-01-3-0019 was terminated due to non-fulfilment of obligations by recipient, the AA considers this finding not relevant and closed.</p>
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	<p>In addition, there is no opinion of evaluation committee, or other proof of checking the reasonableness of price for offer submitted by supplier "Energy Team" LLC, even though amount of 34,116.50 € from this offer is included into list of calculation and thus into contract.</p> <p>As a result, there is a risk, that accepted amount of 26,582.88 € as an ineligible cost will be paid to recipient and can cause potential financial effect as well as cost related to development of main design produced by different company in amount of 7,650.00 €.</p> <p>The AA recommends initiating a procedure for amending of contract in order to decrease contracted amount for construction works by 26,582.88 € as well as rejection of part of investment related to the development of main design. In addition, the AA recommends to IA, to further develop controls which will be able to detect if there is inadequate offer, and to ask from recipient to submit clear and concise offer with clearly visible amount of VAT for every part of it.</p>	
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.2.9 Deficiencies within administrative control of application ID no 18-01-1-0125</b></p> <p><b>Body/-ies concerned: IPARD Agency</b> <b>Level of priority: Major</b></p> <p>ICF requirement 3. (a) Selection and development of control activities - ensuring that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organisation.</p> <p>According to IPARD II programme and Decree for measures 1 and 3, which prescribe detailed criteria for support, recipients must submit complete documentation which unambiguously and accurately present the aim and purpose of the investment.</p> <p>During review of IPARD Agency documentation, related to application ID no 18-01-1-0125, for which expenditures have not been certified yet, the AA identified following deficiencies:</p> <ul style="list-style-type: none"> <li>• There are two requests for support with the same amount requested which are not aligned with submitted offers as well as information presented in the business plan. Namely, the first request for support submitted during the public call stated the amount of construction of</li> </ul>	<p><b>Closed</b></p> <p>Since the Contract with recipient under application ID no 18-01-1-0125 was terminated due to non-fulfilment of obligations by recipient, the AA considers this finding not relevant and closed.</p> <p>However, some issues related to the irregularity management and this particular recipient are presented in section 4.4.1 of this Report and finding related to the irregularity management.</p>

285.683, 83 €, of which the amount 238.386, 25 € is from supplier „Pestorić“ LLC, the amount 17,083.43 € from „Silion“ LLC and the amount 30,214.15 € from „Isopan“ LLC, while in the business plan amount of construction consist of 252,559.03 €, with the difference in the offer submitted by “Pestorić” LLC in amount of 205.261,45 € . By checking the offers, the AA identified that the amount for „Silion“ LLC and „Isopan“ LLC is identical to the amounts stated in the request, while the amount of the first offer submitted by „Pestorić“ LLC is significantly lower and amounts to 67,547.00 € cumulative for whole construction. Further analysis revealed that the IA requested from recipient a new offer aligned with the bill of quantities from the revised main project. Recipient submitted a new offer from the same company „Pestorić“ LLC on 13.02.2019 with amount of 285,607.13 €, out of which 252,559.03 € for construction part (as stated in the business plan) increased by 33,048.10 € for electricity and plumbing works. In addition, recipient submitted new request for support on 15.02.2019 with identical amounts to the old one. The AA identified that the first request for support submitted in May 2018 contains amount identical to the offer submitted in February 2019 which indicates that there is a risk that the pages of the request for support stating the amount were subsequently replaced.

- Through requesting additional documentation, IPARD Agency requested official confirmation that „Silion“ LLC and „Isopan“ LLC were registered for the activity for which the offers were submitted (condition from the Decree for measures 1 and 3). Recipient has submitted the statement within he has declared quitting/cancelling offers of these two companies and selects supplier „Pestorić“ LLC for performing all works. IPARD Agency didn't perform further check about companies Silion and Isopan even though there was a risk that recipient cancelled these offers due to inability of providing official confirmation and that these companies didn't fulfil eligibility criteria within this public call. We additionally identified that even though this declaration was signed on 13<sup>th</sup> February 2019, recipient did not reflect this change in new request for support submitted on 15.02.2019 (part - list of eligible expenditures).
- Further analysis of the offer Pestorić LLC shows that it is not in line with the bill of quantities from the revised main project, i.e., there is no detailed specification for the items plumbing and sewage, electricity and etc. (public call condition - attachment 2 "List of necessary documents"). The same offer was used for the invitation for the offers which could cause different types of ambiguity for supplier, recipient and controllers in the IA. Namely, if there is no detailed technical specification for the particular item, the supplier cannot provide precise offer and controllers will not be able to check investment in details. Also, there is a different approach between contracts

	<p>and some of the recipients' contracts are signed with the calculation of individual items of the bill of quantities, without details for those items, while for others those are specified in details. Furthermore, there is a difference within the same contract, for example in this contract there is detailed technical specification for construction works, but lump sum for plumbing and sewage and electricity.</p> <ul style="list-style-type: none"> <li>• The case files state that a permit for the construction of a temporary facility is issued until the planning documentation is adopted and the deadline is not specified, although Decree for measures 1 and 3 prescribe duration of the investment for at least 5 years from the final payment. There is a risk that this investment will not be sustainable for duration of 5 years.</li> <li>• In an offer from „Big Duchman“ LLC, where equipment for laying hens is listed there is a part of the offer related to waste management, but within list of calculation performed by advisors, there is no additional 10% of support for this part which is prescribed by Decree for measures 1 and 3.</li> <li>• Within the revised main design, an offer was submitted from company „Big Duchman“ LLC with same number as the one stated in request for support but with a different date (02.05. – in request for support and 25.05. – within main design) and a different amount - 204,000.00 € in main design, while the first offer within request was 214,316.16 €. Evaluation committee chose amount of 214,316.16 € as acceptable, even though more reasonable price is 204,000.00 €.</li> </ul> <p>As a result, there is a risk of potential irregularity caused by employees within IA, caused by inadequate knowledge, training or treatment of application which could have financial effect to the IA or to the recipient.</p> <p>The AA recommends following:</p> <ul style="list-style-type: none"> <li>• Having in mind above mentioned deficiencies in internal control and potential irregularities, the AA recommends initiating procedure for investigation of irregularities and if results of investigation confirm that there are some irregularities, IO should follow relevant procedures and inform relevant bodies about results.</li> </ul>	
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	<ul style="list-style-type: none"> <li>• Checking if suppliers „Silion“ LLC and „Isopan“ LLC are registered for activity for which the offers were submitted and if there is no official confirmation, IA should reject this part of investment.</li> <li>• Respecting procedure related to submitting offers which should include detailed technical specification including detailed bill of quantities aligned with the revised main project. Moreover, IA should check all other application related to the investment in construction and ask recipient to submit in detailed bill of quantities, aligned with the revised main project, in the following invitation for offers.</li> <li>• Performing further checks related to the temporary construction permit in order to verify that project will be sustainable in 5 years after payment.</li> <li>• In case that after further analysis, IA confirm that recipient is still eligible for support, IA should determine part of investment related to the waste management and increase support according to Decree and IPARD Programme.</li> <li>• Checking reliability of offer from company “Big Duchman” submitted within main project and reasonableness of cost related.</li> <li>• IA should organize additional training for employees dealing with the authorization of commitments in order to strengthen internal control and avoid similar deficiencies in future.</li> </ul>	
FY2019 System Audit Final report (26/12/2019)	<p><b>4.1.4 Non-compliance between IPARD Programme, Decree and Public call</b></p> <p><b>Body/-ies concerned: IPARD Agency, Managing Authority Level of priority: Intermediate</b></p> <p>ICF requirement 3. (c) Policies and procedures related to control activities – ensuring that written policies and procedures exist establishing what is expected at all levels and specifying detailed actions.</p> <p>Programme for the development of agriculture and rural areas in Montenegro under IPARD II 2014-2020 is the main document which prescribe main conditions, goals and eligibility criteria for using European pre-accession funds through IPARD II. The Decree was created to better, in more details, define some of requirements from Programme and to meet national regulations,</p>	<p><b>Closed</b></p> <p>IA and MA initiated procedure for changing of IPARD Programme and version of 1.3 of IPARD II Programme is aligned with the Decree. Additionally, second public call for measure 1 contains necessary eligibility requirements from IPARD II Programme and Decree.</p>

	<p>while Public call and guideline are main documents used by recipients in order to get most important information about eligibility criteria. All of documents should be completely in compliance, to avoid possible irregularities.</p> <p>According to the Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme) 16/16, 4/18, 11/18, Article 27, public call, inter alia, should contain:</p> <ol style="list-style-type: none"> <li>1) sectors eligible for support;</li> <li>2) eligible investments;</li> <li>3) conditions for granting support;</li> <li>4) conditions for beneficiaries</li> </ol> <p>Analysing relevant documents, we identified following:</p> <ol style="list-style-type: none"> <li>1. Eligibility criteria defined by IPARD II Programme "Recipients within the IPARD framework can obtain support for only one tractor, with a maximum power (not exceeding 100 KW) based on scale and nature of activity" was not included in public call or guideline for recipients for measure 1.</li> <li>2. According to the Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme) 16/16, 4/18, 11/18, 46/19, Art. 21 – Economic viability is evidenced by the business plan and financial statements. In the Article 7, Second public call for Measure 3 - Right to receive support can be achieved by beneficiaries who prove their economic viability.</li> </ol> <p>In the public call or guideline for recipients information on how they can prove their economic viability is not precise.</p> <ol style="list-style-type: none"> <li>3. Section 8.2.6.3 of IPARD II Programme defines following - Not later than the final payment of the investment, the entire enterprise must meet the relevant national minimum standards in terms of environmental protection, public health, animal welfare and occupational</li> </ol>	
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	<p>safety. This rule is incorporated in the Public Call in Article 7. Decree does not contain the rule at all.</p> <p>4. Section 8.2.6.3 of IPARD II Programme defines following - The supported investment must comply with the relevant EU standards in terms of environmental protection, public health, animal welfare and occupational safety at the latest before the payment of support funds. This rule is incorporated in the Public Call in Article 7. but with missing time frame (at the latest before the payment of support funds). The Decree does not contain the rule at all.</p> <p>5. Section 8.2.6.4 of IPARD II Programme defines following - The investment is eligible for support on leased land and the lease contract is concluded for a period longer than 10 years from the day of submitting the grant request, except for investments in the construction and reconstruction of facilities, while Decree and public call defines following - The recipient may also be eligible for support from Measure 3 for investment relates to the procurement of equipment and machinery in leased facilities and / or parcels, provided that the lease agreement is concluded for a period longer than ten years from the date of submitting request for support.</p> <p>6. Section 8.2.8 of IPARD II Programme - General costs that are accepted retroactively (because they may be incurred before the contract is signed - concluded) may be considered eligible if the project to which these costs relate is selected and contracted by the Agency. Neither the Decree, nor the public call contain this rule.</p> <p>Due to listed deficiencies, relevant regulations/documents necessary for smooth implementation of IPARD Programme are not in compliance and do not contain all requested requirements. There is a risk that potential recipients will not receive all relevant information about eligibility criteria, as well as that there is no adequate legal base for decision making.</p> <p>The AA recommends following:</p> <ul style="list-style-type: none"> <li>- aligning all documents related to the implementation of IPARD II programme which contain eligibility criteria (IPARD Programme, Decree, Public call, guideline for recipients), with the focus</li> </ul>	
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	<p>on precise definition which kind of investment is allowed on leased land or facilities and under which conditions for measure 1 and measure 3.</p> <ul style="list-style-type: none"> <li>- developing and organizing additional controls, in the form of working document, in order to assure that every criteria from IPARD II Programme is published in the process of announcing of public calls and</li> <li>- amending Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme).</li> </ul> <p>After analysis of auditee's response, the AA is providing recommendation with additional details:</p> <ul style="list-style-type: none"> <li>• Eligibility criteria defined by IPARD II Programme "Recipients within the IPARD framework can obtain support for only one tractor, with a maximum power (not exceeding 100 KW) based on scale and nature of activity" should be included in public call and guideline for recipients for measure 1 in order to provide all necessary information to the recipients, particularly because high number of applications related to the purchase of tractor.</li> <li>• Section 8.2.6.4 of IPARD II Programme defines following – "The investment is eligible for support on leased land and the lease contract is concluded for a period longer than 10 years from the day of submitting the grant request, except for investments in the construction and reconstruction of facilities" – which in practice means that a recipient cannot invest in construction or reconstruction of facilities on the leased land even in case that, at the end of investment, recipient will be owner of facilities (by consent of the lessor/owner of land), but not owner of land. While the Decree and public call defines the following – "The right to receive support from Measure 3 funds can be achieved by the beneficiaries who are owners of the subject of the investment, at the moment of the final payment of support. The recipient may also be eligible for support from Measure 3 for investment related to the procurement of equipment and machinery in leased facilities and / or parcels, provided that the lease agreement is concluded for a period longer than ten years from the date of submitting request for support" - which in practice means that recipient can invest in construction or reconstruction of facilities on leased land in case that,</li> </ul>	
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	<p>at the end of investment, recipient will be owner of the facilities (by consent of the lessor/owner of land), but not owner of land. These inconsistencies should be aligned.</p> <p>The implementation of the recommendation will be further monitored.</p>	
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.2.1 Uneven approach in verifying reasonableness of costs</b></p> <p><b>Body/-ies concerned: IPARD Agency</b>  <b>Level of priority: Intermediate</b></p> <p>ICF requirement 3. (c) Policies and procedures related to control activities- ensuring that written policies and procedures exist establishing what is expected at all levels and specifying detailed actions.</p> <p>According to Article 11, point 2(f) of SA, the administrative verifications shall in particular include verification of the reasonableness of the costs proposed, which shall be evaluated using a suitable evaluation system, such as reference costs, standard unit costs, a comparison of different offers or an evaluation committee. Before signing a contract, IA uses two evaluation systems (reference price database or evaluation committee) in order to verify reasonableness of cost.</p> <p>During review of IPARD Agency documentation, related to administrative verification, the AA identified that the work of evaluation committee is not aligned with reference price database approach.</p> <p>Namely, the reference price database manual states that due to all deviations of the requested amount (price) from the reference price, between 5% and 30%, the reference price is accepted, while any item, whose deviation is above 30%, is rejected. But, evaluation committee has a different approach and accepts any deviation above 5% (including above 30%) by adding 5% to the reference price. This approach is not equitable, because recipients who are looking for an item which is in the reference price database, that is 30% above the reference price is rejected, and in case when item is not listed in reference price database, but still 30% above, the evaluation committee accepts that item with a reduced amount. In addition, procedures for work of evaluation</p>	<p><b>Remains open</b></p> <p>Even though the Guideline for work of Evaluation Committee has been updated and some parts have been improved (for example the deadline for responding to the IA requests for opinion is defined), the approved Guideline does not present a detailed procedure for work of the EvC.</p> <p>During administrative verifications and from communication with the IA employees, the AA was informed that the EvC in its work uses the rules defined by the Minutes from the meeting No. 321-2687/18-1 from July 24<sup>th</sup>, 2018. The minutes defines in more details the allowed variations in prices and the manner of decision-making of the EvC and these steps are not included in the updated version of the Guideline for work of EvC.</p> <p>The AA recommends the IA to update the Guideline for work of the EvC in order to facilitate the DPAP employees to understand and monitor the procedure related to verification of the cost</p> <p>The implementation of the recommendation will be further monitored.</p>

	<p>committee do not have defined precise steps and inputs for providing opinion about reasonableness of costs proposed.</p> <p>As a result, there is uneven approach of two comparable evaluation systems and that one recipient will get support, while another will not, depending of which evaluation system is used. This situation can make some of recipients in the privileged position.</p> <p>The AA recommends aligning work of evaluation committee with reference price database approach in order to have uniform decision making for all recipients.</p> <p><b>Auditor's final conclusion:</b></p> <p>After further analysis of the systems for verification of the reasonableness of the costs proposed, we cannot agree with the auditee's response, particularly part that these two systems using <b>different source</b> for verification and that they are regulated / prescribed by separate guidelines which prescribe <b>detail</b> work. Namely, according to the manual for reference price database (DP-DPAP-01), page 5, <b>one of the main sources</b> for reference price database is market research, while <b>main source</b> for work of evaluation committee is market research. Moreover, questions within check list used by members of evaluation committee are directly related to the instructions for market research prescribed in the manual for reference price database (page 5, part market research). In addition, as we already mentioned above, there is no detailed procedures for work of evaluation committee.</p> <p>Having in mind that these two systems should be comparable with the unique aim of verification of the reasonableness of the costs proposed they should have been aligned in order to avoid putting some of recipients in the privileged position.</p> <p>The implementation of the recommendation will be further monitored.</p>	
FY2019 System Audit Final	<b>4.2.2 Inefficiency in application processing phase</b>  <b>Body/-ies concerned: IPARD Agency</b>	Partially closed

<p><i>report</i> (26/12/2019)</p>	<p><b>Level of priority: Intermediate</b></p> <p>ICF requirement 3. (c) Policies and procedures related to control activities - ensuring that policies and procedures include the timing when a control activity, and any corrective activity, is to be performed.</p> <p>During compliance testing and review of IPARD Agency documentation, we identified significant number of days needed for application processing. This result is partially due to very long process of providing opinion from evaluation committee as well as lack of respect of deadlines related to opinions of Agency for Environmental Protection and the Directorate for Food Safety, Veterinary and Phytosanitary Affairs.</p> <p>Namely, the AA has identified following deficiencies:</p> <ul style="list-style-type: none"> <li>• Processing of application takes so much time and thus, contracts with many recipients were signed 400 days after submitting a request for support, which could negatively impact on different phases of contract implementation, on de-commitment rates and overall IPARD reputation.</li> <li>• Due to absence of deadline for submitting opinion by evaluation committee (verification the reasonableness of the costs), there is a large difference between recipients related to the number of days needed for getting above mentioned opinion. For example, only 7 days passed for getting opinion for recipient under application ID no 18-01-1-0127, while it took 280 days for recipient under application ID no 18-01-1-0297. Within sample, taken for audit, average is above 100 days which has a significant impact on overall work efficiency in IA.</li> <li>• Lack of respect of deadlines related to opinions of Agency for Environment Protection and the Directorate for Food Safety, Veterinary and Phytosanitary Affairs. Namely, according to the signed memorandums of understanding between the IA and the relevant bodies, they are obliged to submit opinion to IA within 15 days after receiving a request for opinion from IA. Tests performed shows lack of respect of deadlines from the relevant bodies. For example, it took 58 days to get an opinion from the Agency for Environmental Protection for the recipient under</li> </ul>	<p>Even though the IA in its response stated that it is not possible to establish realistic overall deadline for application processing in Department for authorization of commitments, by analysing the submitted documents, the AA identified that certain steps had been taken in order to ensure proper and timely processing of application:</p> <ul style="list-style-type: none"> <li>- deadline for submitting opinions from the EvC is defined (max 2 months),</li> <li>- deadline for submitting opinions from technical bodies is defined (30 days),</li> <li>- no new members of the Evaluation committee have been engaged.</li> </ul> <p>However, even though AA identified moderate progress regarding application processing, there is still a high risk on possible de-commitment due to small number of contracts signed and implemented.</p> <p>Taking into consideration above mentioned, the AA considers this finding partially closed.</p>
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	<p>application ID no 18-01-1-0297 and on the other hand it took 187 days for the opinion from the Directorate for Food Safety, Veterinary and Phytosanitary Affairs related to the recipient under application ID no 18-01-1-0125.</p> <p>As a result, there are significant delays which negatively impact on different phases of contract implementation, like market changes, potential changes in regulation, willingness of recipient, changes or even cancelling the investment, de-commitment rates, etc.</p> <p>The AA recommends establishing realistic overall deadline for application processing in department for authorisation of commitments, taking into account that prescribed deadline for payments is 6 months in SA.</p> <p>In addition, the AA recommends following:</p> <ul style="list-style-type: none"> <li>• Establishing deadline for opinion from evaluation committee, maximum 1 month from receiving a request from IA, taking into account that deadline for technical bodies is 15 days.</li> <li>• Enhancing working communication and procedures with technical bodies in order to respect prescribed deadlines defined in Memorandum of understanding.</li> </ul> <p><b>Auditor's final conclusion:</b></p> <p>AA understands complexity of the issues presented in the auditee's response. The main reason behind every recommendation in this report is improving/strengthening of internal control system. The AA strongly believes that every part of the process should have established <b>realistic deadline</b> in order to make a <b>positive pressure</b> to all parts in the system aimed at increasing of efficiency of the overall process related to the approval of the IPARD projects. Increasing efficiency will positively impact on overall IPARD reputation in Montenegro as well as on potential de-commitment rates.</p> <p>The implementation of the recommendation will be further monitored.</p>	
FY2019	<b>4.2.4 Deficiencies in procedure of justifying reference price variation</b>	<b>Closed</b>

<p><i>System Audit Final report (26/12/2019)</i></p>	<p><b>Body/-ies concerned: IPARD Agency</b> <b>Level of priority: Intermediate</b></p> <p>ICF requirement 3. (c) Policies and procedures related to control activities – ensuring that written policies and procedures exist establishing what is expected at all levels and specifying detailed actions</p> <p>According to the Manual for reference price database DP-DPAP-01 - In case prices from offer are within the reference price variation higher than 5% and less than 15% the price is acceptable only if justification for this variation is properly documented and assessment of the price increase is quantitatively justified.</p> <p>During review of documentation within application ID no 18-01-1-0278, the AA identified that IPARD Agency accepted explanation about offered price with variation higher than 5% and less than 15%. On the other hand, in various cases, same explanations were rejected. Moreover, there are no clear procedures and instructions which and under which circumstances it is obliged to assess and approve/reject justification. As a result, there is a risk that IPARD Agency did not treat recipients equally and thus, put a specific recipient in a privileged position.</p> <p>The AA recommends further analysis of justification of variation in price, and if IA determine that justification is not reliable, we recommend exclusion of difference between offered price and proposed price by Evaluation Committee in amount of 434,02 EUR (7.839,66 EUR – 7.405,64 EUR).</p> <p>In addition, the AA recommends further development of procedures/instructions about steps and responsibilities for approval/rejection of justification for variation in price.</p>	<p>Since the funds are recovered by recipient, the AA considers this finding as closed.</p>
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.3.1 Inadequate control of rule of origin</b></p> <p><b>Body/-ies concerned: IPARD Agency</b> <b>Level of priority: Intermediate</b></p>	<p><b>Closed</b></p> <p>By analysing documents from March 2020 (documentation confirming the origin of goods) and the latest one from January 2021 (regarding organized</p>

	<p>ICF requirement 3. (a) Selection and development of control activities - ensuring that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organization.</p> <p>According to Article 44 of Decree for implementing measures 1 and 3, all goods and services provided in an offer and / or invoice whose total amount of eligible costs is equal or greater than 100,000.00 € are eligible for support if they come from the eligible countries listed in Annex 4, which is an integral part of this Regulation.</p> <p>During review of IPARD Agency documentation, related to application ID no 18-01-1-0127, the AA identified inadequate administrative control related to the rule of origin.</p> <p>Namely, supplier whose offer for constructing of anti-hail net system for an intensive perennial apple plantation was accepted as the most favourable, submitted an invoice, number 187, in amount of 193,924.74 € without VAT. Taking into account above mentioned Decree for implementing measures 1 and 3, recipient was obliged to provide the proof of origin country for items listed in the invoice. The AA has noticed there is no document which can confirm the origin of items listed in the invoice. For example, within submitted invoice, for the item anti – hail net, Italy was stated as the country of origin, but there is no official document which can confirm this statement. On the other hand, advisors from Department for Authorization of Payments have stated Montenegro as country of origin within authorization tables even though they have not had source document which can confirm that.</p> <p>As a result, there is a potential risk that anti-hail net as well as other items listed in invoice, are not eligible costs because of inadequate origin.</p> <p>The AA recommends additional checks related to the origin of items listed in invoice related to the anti – hail system and if IPARD Agency determines that items are not from eligible countries, IA should initiate procedures for recovery of funds from recipient as well as other steps prescribed in regulation and internal procedures. In addition, the AA recommends checking all contracts signed with the similar type of investment in order to check if there is another deficiency related to the control of origin of goods. IPARD Agency should organize training for controllers related to the checking of origin of goods in similar type of investment and other types of constructions.</p>	<p>training for rule of origin), the AA considers this finding as closed.</p>
FY2019	<b>4.4.2 Deficiencies of confirmation on verifiability and controllability</b>	<b>Closed</b>



<p><i>System Audit Final report (26/12/2019)</i></p>	<p><b>Body/-ies concerned: Managing Authority</b> <b>Level of priority: Intermediate</b></p> <p>ICF requirement 1. (c) Establishment of structures, reporting lines, and authorities and responsibilities - ensuring that reporting lines are designed within and between the entities to guarantee necessary flow of information to manage the activities of each entity and to enable accountability over all levels of organization.</p> <p>According to Article 8, point 2(b) of SA, Managing Authority shall be responsible for the controllability and verifiability of the measures, to be defined in the IPARD II programme in cooperation with the IPARD Agency. Also, according to Article 9, point 1(a) IPARD Agency shall be responsible for providing a confirmation to the Managing Authority on the controllability and verifiability of the measures in the IPARD II programme.</p> <p>During review of Manual of Procedures of department for Programming and documents related to Programming, the AA identified deficiency within procedures related to confirmation on controllability and verifiability of the measures under IPARD II Programme.</p> <p>Namely, Manual of Procedures of department for Programming does not prescribe sending request to IPARD Agency for providing a confirmation on the controllability and verifiability of the measures in the IPARD II programme, including confirmation on the controllability and verifiability of the proposed changes in the IPARD II Programme. As a result, Managing Authority sent proposal for modification of IPARD II Programme to European Commission and IPARD II monitoring committee for approval without mentioned confirmation by IPARD Agency.</p> <p>As a result, there is a risk that IPARD Agency cannot control or/and verify some of the conditions from IPARD II Programme during administrative and on the spot control.</p> <p>The AA recommends updating procedures for programming in line with obligations prescribed by SA related to confirmation of controllability and verifiability of the measures under IPARD II Programme as well as respecting them in practice.</p>	<p>By reviewing the adopted version 2.0 of the MoP for MA, the AA determined that the procedures for programming are aligned with the obligation prescribed in the SA. Consequently, the AA considers this finding as closed.</p>
<p><i>FY2019 System Audit Final</i></p>	<p><b>4.4.3 Mismatch between Matrix of modification and IPARD II Programme (1.2)</b> <b>Body/-ies concerned: Managing Authority</b></p>	<p><b>Closed</b></p>

<i>report</i> (26/12/2019)	<p><b>Level of priority: Intermediate</b></p> <p>ICF requirement 4 c) External communication – ensuring that processes are in place to communicate required information in a relevant format and timely to external parties, including the European Commission, the European Court of Auditors, etc.</p> <p>During the audit we compared Matrix of modification and IPARD II Programme and identified following deficiencies:</p> <ol style="list-style-type: none"> <li>1. Point 30 of the Matrix (proposed changes) does not contain paragraph - No payment shall be made by the IPARD Agency and the aid will be cancelled if the recipient fails to submit the required documents in due time, while Programme still contains.</li> <li>2. Point 51 - Mismatch between Matrix and Programme related to the investments in leases facilities/land. Matrix defines - Procurement of equipment is eligible for support in leased facilities, if the lease agreement is concluded for a period longer than 10 years from the date of application for support. Programme defines - The investment is eligible for support on leased land and the lease contract is concluded for a period longer than 10 years from the day of submitting the grant request, except for investments in the construction and reconstruction of facilities.</li> <li>3. Point 76 – Mismatch between Matrix and Programme related to indicators and targets; Number of publicity campaigns – Matrix 250/ Programme 275; Number of workshops, conferences, seminars - Matrix 80/ Programme 250.</li> </ol> <p>The AA recommends harmonizing listed mismatches in order to get compliance between documents and use of adequate provisions. All proposed and approved changes should be reflected in new version of IPARD Programme.</p>	<p>By reviewing matrix of modification and IPARD II Programme version 1.3, the AA determined that the documents are aligned.</p>
FY2019 System Audit Final report (26/12/2019)	<p><b>4.5.1 Non-fulfilment of tasks from Evaluation plan</b></p> <p><b>Body/-ies concerned: Managing Authority</b></p> <p><b>Level of priority: Intermediate</b></p> <p>ICF requirement 4. (c) External communication, ensuring that processes are in place to communicate required information in a relevant format and timely to external parties, including the European Commission, the European Court of Auditors, etc.</p>	<p><b>Closed</b></p> <p>The Evaluation plan has been updated in November 2020.</p>

	<p>According to Article 56, point (3) of SA, the Managing Authority shall report each year on the results achieved under the evaluation plan to the IPARD II monitoring committee with copies to the Audit Authority. A summary of the activities shall be included in the annual report provided for in Article 59.</p> <p>During review of documents related to department for monitoring, evaluation and reporting, the AA identified non-fulfilment of tasks envisaged by the Evaluation plan as well as that evaluation plan has not updated since July 2016, even though there was a need, due to changed circumstances.</p> <p>Namely, Evaluation plan, within the planned activities, prescribes providing information about results of the same activities within each Annual Implementation Report of IPARD II programme. Activities such as assessment of weaknesses and gaps as well as assessment of absorption obstacles were not mentioned within AIR for 2018, which indicates that these activities have not been carried out. Furthermore, during the discussion with employees, the AA identified that these activities will not be carried out during 2019 as well.</p> <p>As a result, there is an inadequate information about efficiency and effectiveness of implementing IPARD II Programme.</p> <p>The AA recommends updating evaluation plan with the clear activities aligned with the current circumstances as well as providing adequate budget for its implementation.</p>	
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.5.2 Inadequate internal tables</b></p> <p><b>Body/-ies concerned: Managing Authority</b> <b>Level of priority: Intermediate</b></p> <p>ICF requirement 4. (c) External communication, ensuring that processes are in place to communicate required information in a relevant format and timely to external parties, including the European Commission, the European Court of Auditors, etc.</p> <p>According to Article 8, point 3, the Managing Authority shall in accordance with Clause 4(3)(a)(i) of Annex A to the FWA, set up a reporting and information system to gather financial and</p>	<p><b>Closed</b></p> <p>According to the auditee's answer and submitted documents, the AA determined that the MA has set an adequate reporting and information system to gather financial and statistical information on progress of the IPARD II programme.</p>

	<p>statistical information on progress of the IPARD II programme, also on the basis of information to be provided by the IPARD Agency, and shall forward this data to the IPARD II monitoring committee, in accordance with arrangements agreed between Montenegro and the Commission. During audit within Managing Authority, the AA identified inadequate internal tables for monitoring, evaluation and reporting of the measures under IPARD II Programme.</p> <p>Namely, according to Operational Agreement between the Managing Authority and the IPARD Agency, Managing Authority summarises the data on indicators for monitoring the effectiveness and the quality of the implementation of the IPARD II programme based on Table of databases of recipients (Appendix 3.1.7 of Accreditation package of Managing Authority/Monitoring, Evaluation and Reporting) and Monitoring tables (Appendix 3.1.8 of Accreditation package of Managing Authority/Monitoring, Evaluation and Reporting) prepared and received by IPARD Agency. By review of operational agreement IA is obliged to send internal table (Appendix 3.1.7) after finalization of administrative control, but due to the long duration of administrative control, Appendix 3.1.7 does not provide timely information to MA. Furthermore, during discussion with employees of Managing Authority, we found out that the MA will propose IA to send monthly tables in the form of annex DP-DPAP-00-11 "Register of received applications" which contains an enormous amount of information (a lot of them are not relevant for Managing Authority) which could negatively impact on efficiency of employees of Managing Authority.</p> <p>As a result, Managing Authority will not handle with appropriate information which could negatively impact on adequacy of monitoring process.</p> <p>Taking into account above mentioned, the AA recommends development of adequate internal tables which will enable efficient monitoring of the implementation of IPARD II Programme.</p>	
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.6.1 Guideline for recipients</b></p> <p><b>Body/-ies concerned: Managing Authority</b></p> <p><b>Level of priority: Intermediate</b></p> <p>ICF requirement 4 (a) Information to support functioning of internal controls - ensuring that information is obtained from all relevant sources including both internal and external sources</p>	<p><b>Closed</b></p> <p>According to the auditees answer and submitted Operating Agreement, the AA identified that Article 15 of the OA has been updated in order to have more effective and efficient information and communication process.</p>

	<p>According to the Operating Agreement, Art 15. the Managing Authority needs to ensure participation of the IPARD Agency representatives in the working groups for preparation of the publicity materials, as well as, the Managing Authority and the IPARD Agency are obliged to establish a working group for preparation of the Guidelines for recipients and for follow up of the quality of the Guidelines for recipients and improvement of the content.</p> <p>During audit the AA identified that working groups were not established, as well as Guideline for recipients for Second Public call for Measure 3 was not published. Last published Guideline is from 09/03/2018 which was not updated even though there were changes in the Decree.</p> <p>The AA recommends establishing working groups according to the Operating Agreement in order to have more effective and efficient information and communication process with the recipients and wider public, as well as publishing/updating of Guideline for recipients in any future announcement of public call.</p>	<p>The guidelines and brochures for published public calls have been published on the official web page of the IPARD programme.</p>
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.6.3 Written procedures concerning responsibility of MA</b></p> <p><b>Body/-ies concerned: Managing Authority</b> <b>Level of priority: Intermediate</b></p> <p>ICF requirement 4 (a) Information to support functioning of internal controls – ensuring that processes are in place at all levels to identify the information required and expected to support the functioning of the other components of internal control and the achievement of the organization's objectives</p> <p>According to the SA, Article 8, Functions and responsibilities of the Managing Authority, paragraph 2) b) <b>MA is responsible for the selection of measures under each call for applications under the IPARD II Programme and their timing, the eligibility conditions and the financial allocation per measure, per call. The decision shall be made in agreement with the IPARD Agency.</b></p> <p>During the audit we identified absence of written procedures concerning this responsibility of MA, i.e. it is not defined in which way they fulfil mentioned obligation. Furthermore, the AA identified that during public calls in 2018 the MA did not take over responsibilities prescribed in the article</p>	<p><b>Partially closed</b></p> <p>By analysing the submitted answer and documents, the AA identified that the MA updated the procedures for announcing public calls. According to the new procedures, <b>coordination between MA and IA is enhanced</b> regarding the selection of measures and their timing, which results in preparation of Plan of publishing IPARD public calls.</p> <p>However, SA clearly define that “MA is responsible for the selection of measures under each call for applications under the IPARD II Programme and their timing, the eligibility conditions and the financial allocation per measure, per call. The decision shall be made in agreement with the IPARD Agency” which is not reflected in new procedures.</p>

	<p>above. Namely, the MA was not responsible for the selection of measures, their timing, the eligibility conditions and the financial allocation per measure. According to documents reviewed, the MA only provided comments on the content of public call to IA which performed all mentioned tasks.</p> <p>The AA recommends developing written procedures related to selection of measures under each call for applications under the IPARD II Programme and their timing, the eligibility conditions and the financial allocation per measure, per call, in order to ensure fulfilment of required responsibilities of MA.</p> <p><b>Auditor's final conclusion:</b></p> <p>During interview we identified that IA was responsible for the selection of measures under each call for applications under the IPARD II Programme and their timing, the eligibility conditions and the financial allocation per measure, per call and MA only provided comments on it which is not in line with the provisions from SA. In addition, MA should ensure adequate audit trail for performing responsibilities prescribed.</p> <p>The implementation of the recommendation will be further monitored.</p>	
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.7.1 KPI content</b></p> <p><b>Body/-ies concerned: Directorate for Management Structure</b></p> <p><b>Level of priority: Intermediate</b></p> <p>ICF requirement 5. Monitoring of internal control framework (a) On-going and specific monitoring – ensuring that on-going and specific monitoring is developed and performed to ascertain that the components of internal control are present and functioning at all levels</p> <p>According to the Manual of procedures, Part I, Chapter 12 – AM Declaration, point 2 – One of the resources used by the NAO in order to issue the AMD are The Key Performance Indicators (KPI)s. The Key Performance Indicators (KPIs) shall be defined based on:</p> <ul style="list-style-type: none"> <li>□ Annual Work Plan;</li> </ul>	<p><b>Closed</b></p> <p>The DMS has updated the KPIs in line with AA's recommendations, i.e. cut off dates are defined, in cases of significant deviations of results, comments are included, as well as general conclusion is given.</p>

	<ul style="list-style-type: none"> <li>□ Procurement Plan;</li> <li>□ Cash Flow Forecast;</li> <li>□ Work Load Analysis.</li> </ul> <p>KPIs defined and prepared by the NAO are measured in the beginning of the year. Fulfilment of the KPIs is an indication on weak points in the ICS, to undertake the corrective actions.</p> <p>During the audit the AA identified that KPIs for IPARD II Programme are defined and prepared by the NAO, but with some deficiencies. Namely, there is no precise cut-off date of calculating fulfilment of indicators. Also, there is absence of comments in cases of large percentage deviation of results in comparison with set indicators. Finally having in mind that there is a lack of explanations for indicators which have not been fulfilled as planned, there might be discrepancy with the general conclusion that the current state of implementation is at satisfactory level.</p> <p>As KPI's is important monitoring tool for measuring predefined targets, we recommend to include dates of setting target as well as cut-off dates of calculating results.</p> <p>Also, comments are mandatory in cases of significant deviation between results and indicators.</p> <p>At the end, general conclusion should contain concrete explanations about overall KPI efficiency and should include concrete actions related to increasing efficiency and effectiveness of implementation of IPARD II Programme.</p>	
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.8.1 Non-existence of contingency plan</b></p> <p><b>Body/-ies concerned: IPARD Agency</b>  <b>Level of priority: Intermediate</b></p> <p>ICF requirement 3. (a)(viii) Selection and development of control activities - ensuring that control activities include Procedures for continuity of operations ensuring that significant risks to</p>	<p><b>Closed</b></p> <p>The IA has developed and approved the Contingency plan.</p>

	<p>continuity (e.g. concerning loss of data, absence of individuals etc.) are identified and contingency plans put in place.</p> <p>According to the Annex B of the FWA, point 3 (a) (viii) "Procedures for continuity of operations ensuring that significant risks to continuity (e.g. concerning loss of data, absence of individuals etc.) are identified and contingency plans put in place".</p> <p>During review of relevant documents within IA, the AA identified that IA doesn't have developed contingency plan.</p> <p>As a result, there is a risk which is related to inadequate procedures, steps and information in case of loss data, absence of individuals or other unexpected events.</p>	
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.6.2 Shortcomings in IPARD Monitoring Committee work</b></p> <p><b>Body/-ies concerned: Managing Authority</b> <b>Level of priority: Minor</b></p> <p>ICF requirement 4 (a) Information to support functioning of internal controls – ensuring that processes are in place at all levels to identify the information required and expected to support the functioning of the other components of internal control and the achievement of the organisation's objectives</p> <p>1. According to the Rules of the Monitoring Committee for the IPARD II Programme, Article 4 - Representatives of the Managing Authority, the IPARD Agency, the NAO and the NIPAC shall participate in the work of the Committee as members without voting right.</p> <p>Analysing Decision on establishing IPARD Monitoring Committee, issued by MARD on 10/01/2018, the AA identified shortcoming in composition of the Committee. Namely, Mr Darko Konjevic, Head of the Managing Authority, who must not be member with voting right according to the mentioned rule is appointed as a replacement of the representative from body with voting right.</p> <p>Furthermore, by insight into the Minutes from all four IMC meetings, the AA concluded that Mr Konjevic wasn't chair with the IMC meetings, which is mitigating circumstance.</p>	<p><b>Closed</b></p> <p>By analysing the submitted answer and documents, the AA identified that the MA implemented presented recommendations.</p>



	<p>2. According to the Rules of the Monitoring Committee for the IPARD II Programme, Article 17 - Every member of the Committee and their representatives shall sign a declaration of impartiality. By comparing Declarations received from the auditee with the list of appointed representatives from Decision on establishing IPARD Monitoring Committee, issued by MARD on 10/01/2018, the AA concluded that not all of them signed Declaration of impartiality.</p> <p>3. According to the Article 8, Rules of the Monitoring Committee for the IPARD II Programme - The Committee shall meet at least twice a year. Analysing minutes of meetings, we identified that IMC has met four times - on June 7, 2016; June 27, 2017; June 12, 2018; February 06, 2019, i.e. the IMC has met once each year. Therefore, the mentioned requirement was not respected.</p> <p>4. According to the Rules of the Monitoring Committee for the IPARD II Programme, Article 9 - The Secretariat shall send the invitations together with the proposed agenda including any supporting documents electronically/or in paper version at least 15 working days prior to the meeting to the members of the Committee. The AA identified that invitations for Fourth meeting were sent electronically on 29/01/2019. Meeting was scheduled for 06/02/2019, so the prescribed deadline was not respected.</p> <p>5. According to the Manual of procedures, DCPR, part 6.1 - On the basis of the Plan of visibility and communication activities, every year MA in cooperation with IA prepares Annual List of Actions (see Appendix 1. Annual List of Actions - template). This Plan should be prepared and approved by IMC at autumn meeting of current year for the next year. Annual list of actions for 2019 was approved on the IMC meeting on 06/02/2019, which is not in compliance with required deadline.</p> <p>The recommends following:</p> <ol style="list-style-type: none"> <li>1. Issuing new Decision with adequate replacement for the Chairperson.</li> <li>2. Signing Declaration by all members of the IMC.</li> </ol>	
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	3. Respecting required deadline rules.	
FY2019 System Audit Final report (26/12/2019)	<p><b>4.4.1 Deficiencies in information and communication channels</b></p> <p><b>Body/-ies concerned: Managing Authority</b> <b>Level of priority: Minor</b></p> <p>ICF requirement 4. (c) External communication, ensuring that processes are in place to communicate required information in a relevant format and timely to external parties, including the European Commission, the European Court of Auditors, etc.</p> <p>According to Article 29, point 2(b): the Managing Authority shall be responsible for ensuring the establishment of a single website or a single website portal providing information on, and access to the IPARD II programme of Montenegro, including information about the timing of implementation of programming and any related public consultation processes.</p> <p>According to Article 8, point 4, the Managing Authority shall be responsible for ensuring that the relevant authorities are informed of the need to make appropriate administrative changes when such changes are required following a decision by the Commission to amend the IPARD II programme.</p> <p>During audit the AA identified following deficiencies:</p> <ul style="list-style-type: none"> <li>• Delay related to publishing new version of IPARD II Programme on website of Ministry of Agriculture and rural Development. Namely, Manual of Procedures of department for Programming prescribes publishing new version of IPARD II Programme on website of Ministry of Agriculture and rural Development, not later than 5 working days from the day of Notification of the adoption of modifications by European Commission. Managing Authority got Notification of the adoption on 7<sup>th</sup> May and they published new version on 19<sup>th</sup> June. Also, Managing Authority did not update Decree for implementing measures of the IPARD II programme with the List of Eligible Expenditure within 15 working days from the day of Notification of the acceptance of the List of Eligible Expenditure by the Commission.</li> <li>• Manual of Procedures of department for Programming does not include requirement which prescribe that the Managing Authority should notify relevant authorities about significant</li> </ul>	<p><b>Closed</b></p> <p>By analysing the auditee's answer and submitted documents, the AA identified that the Procedures of the MA related to information and communication channels have been aligned with the SA. The obligation of the MA to inform relevant bodies about adoption of the IPARD programme is involved in procedures. The AA was informed about the amendments to the IPARD Programme which are approved by the EC on January 2021.</p>

	<p>changes within IPARD II Programme and thus, they did not notify Audit Authority about adopted modifications of IPARD II Programme.</p> <p>As a result, relevant parties are not informed about significant changes under IPARD II Programme and cannot act accordingly.</p> <p>Taking into account above mentioned, the AA recommends following:</p> <ul style="list-style-type: none"> <li>• Respecting deadlines related to publishing new version of IPARD II Programme as well as updating Decree for implementing measures of the IPARD II programme with the List of Eligible Expenditure in line with the deadlines prescribed by manual of procedures;</li> <li>• Managing Authority should include respectable requirements related to notifying the relevant authorities about modifications adopted by European Commission within IPARD II Programme in procedures as well as respect same requirements.</li> </ul>	
<p><i>FY2019 System Audit Final report (26/12/2019)</i></p>	<p><b>4.1.2 Deficiencies regarding HR</b></p> <p><b>Body/-ies concerned: Managing Authority</b></p> <p><b>Level of priority: Minor</b></p> <p>ICF requirement 1 Control environment (d) Staff planning, recruitment, retention, training and appraisal</p> <p>During the audit of HR process the AA identified following deficiencies:</p> <ol style="list-style-type: none"> <li>1. The Recruitment plan has not been prepared for 2019.</li> </ol> <p>According to the Manual of procedures - General issues of MA, Part 4.1 - Recruitment Plan will be prepared on the basis of the Work Load Analysis.</p> <p>Result of the WLA for 2019 shows need for 10 employees. Number of currently employed staff is 9, which further implies that Recruitment Plan should be prepared.</p> <ol style="list-style-type: none"> <li>2. According to the Manual of procedures - General issues of MA, Part 4.1 - The Directorate provides education, specialization and upgrading of its employees on the basis of the Annual</li> </ol>	<p><b>Closed</b></p> <p>By analysing received documents, the AA considers this finding closed</p>

	<p>Training Plan (See Appendix 3.a Training Plan) and on the Training Needs Self-Assessment - TNSA (See Appendix 3.b Training needs self-assessment) for education, specialization and upgrading, which refer to both the permanent employees and new ones.</p> <p>During audit we identified that MA employees do not fulfil Training needs self – assessment.</p> <p>3. According to the Manual of procedures - General issues of MA, Part 4.17 - For each individual job position in Directorate for Rural Development/MA there is a prepared a respective job description. Job description contains, among others, the requirements regarding years of previous work experience.</p> <p>By testing received job descriptions the AA identified inconsistency between the Rulebook on internal organization and systematization and job description for Senior Advisor for programming. Required work experience in the Rulebook is five years while in the job description is three years.</p> <p>The AA recommend s following:</p> <ol style="list-style-type: none"> <li>1. Preparation of Recruitment Plan in order to achieve adequate staff capacities that are able to perform the MA functions in continuity</li> <li>2. Fulfilling TNSA in order to have adequate information and audit trail about staff needs</li> <li>3. Harmonization of job description and Rulebook.</li> </ol>	
<p><i>FY2019 Audit of operations Final report (10/02/2020)</i></p>	<p><b>4.1.1 Ineligible expenditures related to plastic caps for concrete pillars</b></p> <p><b>Body/-ies concerned: IPARD Agency</b></p> <p><b>Level of priority: Major</b></p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements</p> <p>During on the spot control and reviewing documentation of the recipient under application ID no ID no 18-01-1-0127, the AA identified that recipient has finished investment of constructing of anti-hail net system for an intensive perennial apple plantation and their payment request is</p>	<p><b>Closed</b></p> <p>Since the Decision for recovery of funds is issued and funds are recovered by recipient, the AA considers this finding closed.</p>

	<p>executed. One part of investment/invoice are concrete pillars and plastic caps. Taking into account that payment was authorized and executed for <b>3.413</b> concrete pillars (2.902 concrete pillars size 7X8 - 4.5m and 511 concrete pillars size 10X12 - 4.5m) as well as for <b>3.487</b> plastic caps for concrete pillars (2.938 plastic caps for small pillars and 549 plastic caps for big pillars), and the fact that each pillar has its own plastic cap on its top, we identified calculation inconsistencies. Further analysis has shown that this inconsistency appeared due to wrong assessment of on the spot control report by employees from department for authorization of payments (DAP). In report it is stated that 74 plastic caps and 32 concrete pillars are found <b>in the warehouse</b> and through authorization table expenditures related to the 74 plastic caps, which are found within warehouse, are accepted as <b>eligible</b>, while expenditures related to 32 concrete pillars within warehouse are assessed as <b>ineligible</b>, due to the fact that they are not in function. IPARD Agency had different approach to the different items from invoice and recipient is wrongly paid in amount of 133,13 € for the plastic caps found out of function (price of plastic cap is 2,57 € and intensity aid is 70%).</p> <p>The AA recommends initiating procedures for recovery of funds from recipient in amount of 133,13 € related to support for the plastic caps, i.e. to act in accordance with provisions defined in article 50 of Sectoral Agreement. Also, IPARD Agency should perform checks of contracts with similar type of investment in order to identify if there are possible deficiencies.</p>	
<p><i>FY2019 Audit of operations Final report (04/03/2020)</i></p>	<p><b>4.1.1 Approved and paid financial support for equipment which is not eligible under the IPARD Programme</b></p> <p><b>Body/-ies concerned: IPARD Agency</b> <b>Level of priority: Major</b></p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements. According to the article 33 point (2) Montenegro shall notify the Commission the list of eligible expenditure for each measure. All supported investments should be aligned with the LEE and eligibility requirements from IPARD Programme.</p>	<p><b>Closed</b></p> <p>Considering the fact that IA initiated all necessary steps at its disposal in order to return the funds, this recommendation was considered closed. However, the AA recommended IA in the future to initiate procedures for recovery of funds as soon as deadline defined in the Decision for recovery of funds expires.</p> <p>Follow up on further recovery procedure will be performed within debt management and debtor ledger.</p>

	<p>During the administrative and on-the-spot verification made by AA, the auditors concluded the following:</p> <ul style="list-style-type: none"> <li>• The recipient under application ID no 18-01-1-0228 submitted request for support and signed contract with IA for purchase of a combined machine for manure handling machine, with forks for loading and unloading pallets. During review of contract between recipient and supplier as well as during on the spot visit AA identified that recipient purchase Backhoe Loader Caterpillar model 444F2 which has a quality certificate related to the small construction equipment which is not aligned with aim of submitted request for support and signed contact with IA. Furthermore, backhoe loader is not listed as eligible investment in the LEE for measure 1 of the IPARD Programme. It is machine which has a primary role in construction and similar works, and the main function of this machine is not handling the manure which represents the purpose of the investment for which the funds were given to the recipient;</li> <li>• For the measure 1, within point 8.1.8.1, IPARD Programme defines eligibility of investment for supply of equipment and machinery appropriate for the type of production. Taking into account that recipient production includes 10.000 chicken broilers and the fact that he has 5 production cycles per year, machine usage is limited to 5 times during the year (cleaning after every cycle). By checking the usage of the machine, we identified that machine has had 748 working hours since August 2019 (traffic license obtained 21.08.2018) up to February 2020 (on the spot control by AA was conducted on 04.02.2020) for which recipient could have maximum 3 production cycles and possibility to use machine maximum 3 times for manure handling which in practice needs much fewer working hours. In addition, visible tracks on the machine itself were noted, indicating that the machine was used for a purpose other than for which it was intended and supported by IA.</li> <li>• After the measurements of the door (1.8 m) through which the manure should be taken from the production facility and measuring the loader bucket (2.5 m) that should be used for the handling/loading of the manure, we concluded that a machine itself cannot be used for its intended purpose for which it was supported, more precisely cannot be used for direct manure removal and loading.</li> </ul>	
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	<p>Taking into account above mentioned IPARD Agency provided support for investment which is not eligible for support under IPARD Programme and which has been used for other purposes.</p> <p>The AA recommends initiating procedures for recovery of funds from recipient in amount of 65.200,00 € related to the purchase of backhoe loader which is not eligible investment according to the IPARD Programme , i.e. to act in accordance with provisions defined in article 50 of Sectoral Agreement. In addition, IPARD Agency should organize trainings related to the eligibility of specific machines and equipment as well as adequate on the spot control.</p>	
<p><i>FY2019 Audit of operations Final report (04/03/2020)</i></p>	<p><b>4.1.2 Ineligible expenditures related to sanitary appliances</b></p> <p><b>Body/-ies concerned: IPARD Agency</b>  <b>Level of priority: Major</b></p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>During on the spot control and reviewing documentation of the recipient under application ID no 18-01-3-0005, whose payment request is executed, the AA concluded that recipient has finished investment of upgrading factory capacities and purchasing machines and equipment which were subject of contract with the IA, except part of the items from invoice realized by “Arhitektonika LLC”.</p> <p>“Arhitektonika” LLC was supplier for part of investment related to water supply and sewerage installation which includes installation of sanitary appliances. During on the spot control the AA identified that some of appliances are not installed. Namely out of 27 items per position (2 items for facility 1 and 25 items for facility 2) 16 washbasins, 9 hot and cold water batteries, 21 mirrors, 17 paper towel holders and 9 liquid soap holders, total values of 825,00 € (without VAT), were not found into intended facilities even though recipient received support for this part as well. Taking into account above mentioned, the AA has concluded that recipient is wrongly paid in amount of 412,50 € (intensity aid was 50%).</p>	<p><b>Closed</b></p> <p>Since the Decision for recovery of funds has been issued and funds have been recovered by recipient, the AA considers this finding closed.</p>

	<p>The AA recommends initiating procedures for recovery of funds from recipient in amount in amount of 412,50 €, i.e. to act in accordance with provisions defined in article 50 of Sectoral Agreement. In addition, IPARD Agency should organize trainings related to the eligibility of specific machines and equipment as well as adequate on the spot control.</p>	
<p><i>FY2019 Audit of operations Final report (04/03/2020)</i></p>	<p><b>4.1.3 Disrespecting of visibility procedures related to EU contribution</b></p> <p><b>Body/-ies concerned: IPARD Agency</b>  <b>Level of priority: Intermediate</b></p> <p>ICF requirement 3. (a)(iv) Publicity rules and procedures ensuring that the legislative requirements are fulfilled.</p> <p>According to Annex 8 of the Sectoral Agreement, the operating structure and the recipients shall take the steps necessary to provide information to, and communicate with, the public on operations supported by an IPARD II programme.</p> <p>During performed on-the-spot controls we found out that the visibility rules, related to co-financing the investment by the European Union, have not been fully respected. Namely, 4 out of 8 recipients which were subject of audit of operation did not fully respect visibility requirements prescribed in contract. Not publicizing or incorrect publicizing is a result of insufficient control and lack of information to the recipients on the manner and place where such visibility material should be placed and on their quality.</p> <p>Agency should initiate actions for remedying the established situation for the purpose of proper highlight, fully informing on, and publicizing the IPARD Programme, EU contribution as well as visibility and transparency of aid.</p> <p>In order to establish more efficient control over visibility requirements we recommend changing procedure in a way that recipient should fulfil mentioned requirements after signing the contract, or more precisely within time of submitting payment request. By signing the contract, the recipient has assumed the obligation and responsibility to comply with the requirements. One of the</p>	<p><b>Remains open</b></p> <p>The AA once again emphasises the recipient's responsibility to respect visibility requirements not only after the final payment, but also during the implementation of the operation and recommends the IA to check fulfilment of those requirements during on the spot check before payment.</p> <p>Also, since new IPARD II Guidance on the responsibilities of recipients concerning information and communication toward the public Ares (2020)2698488 was issued in May 25<sup>th</sup>, 2020, the AA recommends the IA to update the manual of procedures accordingly, in order to adequately inform the recipients about his responsibilities concerning information and communication to the public.</p> <p>The implementation of the recommendation will be further monitored.</p>



	<p>requirements is to label the investment, regardless of the risk of part or the entire project being rejected.</p> <p><b>Auditor's final conclusion:</b></p> <p>According to the Regulation (EU) No. 1303/2013, Annex XII, part 2. (2.2.) and Sectoral Agreement, Annex 8, part 2. (2.2.) recipient's responsibilities include respecting visibility requirements not only after the final payment, but also during the implementation of the operation. At the same time mentioned regulation doesn't require amount of paid support indicating on billboard/ posters/plaques (as stated in management response) but the financial support from the Union which could be in the practice percentage of co-financing rate of EU contribution.</p> <p>Agency should take actions in adapting the procedures for adequate control over visibility requirements.</p> <p>The implementation of the recommendation will be further monitored.</p>	
<p><i>FY2019 Audit of accounts Final report (04/03/2020)</i></p>	<p><b>4.1.1 Deficiencies in the preparation of the Annual Accounts</b></p> <p><b>Body/-ies concerned: NAO (DMS)</b>  <b>Level of priority: Intermediate</b></p> <p>According to Article 45 of the SA, the Annual Accounts besides Annual Declaration, Table of differences and List of payments, should include the table of the amounts to be recovered at the end of the financial year, i.e. the debtor's ledger.</p> <p>The Annual Declaration is the most important document of the Annual Accounts. The format is defined in the Annex 6 of the SA. As stated in the Guideline 5 for Annual Account, the standard text of the Annual declaration statement and table should not be amended.</p> <p>According to the audit carried out by the AA, some deficiencies were identified:</p> <ul style="list-style-type: none"> <li>• The NAO did not send to the EC the Debtors ledger as part of annual accounts, but only together with the D1s on quarterly basis</li> </ul> <p><i>Annual Declaration Statement – D2</i></p>	<p><b>Closed</b></p> <p>Annual accounts for FY 2020 were prepared in line with recommendation provided by AA. Some deficiencies identified are presented in section 6.3 of this Report.</p>

	<ul style="list-style-type: none"> <li>• First paragraph - The period to which the Declaration refers, i.e. the financial year is presented wrongly 01/01/2018 to 31/12/2019, instead of 01/01/2019 to 31/12/2019;</li> <li>• First paragraph – According to the Guideline No 5 IPARD II Annual Accounts, the IPA II beneficiary should state the total gross amount of public IPARD II expenditure (EU + national) made in the financial year, not only the EU part as presented in declaration sent by NAO;</li> <li>• In the point 5 of declaration only the information about the principal is presented, even though according to the Guideline 5 information about the interest should be stated too even in case of zero amount.</li> </ul> <p><i>Annual Declaration Table</i></p> <ul style="list-style-type: none"> <li>• The date of closing balance of the IPARD Euro account is wrongly presented 31.12.2018 instead of 2019.</li> </ul> <p><i>List of payments</i></p> <ul style="list-style-type: none"> <li>• The first column of the List of payments should contain the number of the measures as stated in the description of the document in the Guideline 5 for Annual Accounts, not the ordinal number of the payment request as presented by the auditee;</li> <li>• The total amount of expenditure declared in the D2 for the payment (column 10) is not presented;</li> <li>• In the last row of the Table, there is no reference to the financial year and total amount;</li> <li>• The format for columns Date is not as the one required in the SA "DD/MM/YYYY".</li> </ul> <p>The AA recommends preparing annual accounts with due diligence, following relevant templates and guidelines issued by EC.</p>	
FY2018 System Audit Final report (21/01/2019)	<p><b>4.10.2 Assessing reasonableness of the costs</b></p> <p><b>Body/-ies concerned: IPARD Agency</b></p> <p><b>Level of priority: Major</b></p> <p>SA – Article 11. 2) (f) prescribes that the reasonableness of the costs proposed, shall be evaluated using a suitable evaluation system, such as reference costs, standard unit costs, a comparison of different offers or an evaluation committee</p>	<p><b>Partially closed</b></p> <p>Considering IA reply, AA identified that part of recommendation related to the limitation of invitation of offers is implemented and for another part IA modified procedures which are approved by DG AGRI. Considering that during audits related to FY 2020, AA</p>

<p>An EU-funded project should be based on prices that are the lowest available for the required project specification or be clearly the economically most advantageous offer. In other words, costs can be considered reasonable when they are not higher than the best price that normally a recipient should be able to find in the market, applying due diligence, for projects having certain specifications.</p> <p>Manual of Procedures for DPAP prescribes rules for evaluation of reasonableness of costs. Analysing available documentation and based on conducted interview, we concluded that the system for evaluation of reasonableness of the cost were not aligned and appropriate. In addition, procurement procedures are not developed through concrete, clearly defined rules.</p> <p>Namely, the system is designed in a way that the reasonableness of the costs proposed in offer submitted by recipient, is evaluated through two systems. For items that include mechanization and equipment for Measure 1: First – Reference price database for all items for which this database contains data, <b>before contracting</b>; Second - Three offers from the independent suppliers <b>before payment</b>. In case of the items related to the construction for measure 1 and 3, and for all items for the measure 3 the two systems for controlling reasonableness of the costs proposed in offers were: First - is <b>used before contracting</b> - the evaluation committee provided professional opinion regarding prices and quantities. Second - is <b>used before payment</b> where the recipient submitted at least three offers from the independent suppliers for all investments for the measure 1 and for measure 3, according to the Contract signed with the DP. As a result, we have a situation that the contract signed between DP and recipient is a maximum amount of support which recipient can get, and that this amount is controlled only through one evaluation system, such as reference price database or evaluation committee. Second evaluation system is not used for checking reasonableness of costs, but if there is lower price than one stated in the contract. This is also confirmed by the annex "Invitation for the offers/quotations,, where DP impacts on market by limiting maximum price to the contracted one. Furthermore, the finding related to the reliability of reference price database no. 4.10.1 shows that this system <b>does not provide reliable price</b>.</p> <p>For example, in the practice this means that recipient through public call for measure 1 submitted offer for particular item in May 2018, and reasonableness of that offer is controlled through first evaluation system with prices fixed in February 2018 (cut of date for a database). A result we</p>	<p>identified several deficiencies related to the process of assessing reasonableness of the costs, AA will pay special attention to this process during audits related FY 2021.</p>
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	<p>have maximum amount for the contract which will be signed during first quarter of 2019. After signing of contract and providing funds for realization, recipient is obliged to conduct procurement procedures and get at least three offers from different suppliers which are expected to be done in second semester of 2019.</p> <p>Bearing in mind above mentioned there are several deficiencies in the system:</p> <ol style="list-style-type: none"> <li>1. The contract amount is based on unreliable assessment system using only one system for evaluation of the reasonableness of costs.</li> <li>2. DP influences on market with annex "Invitation for the offers/quotations" by limiting price to unreliable contracted one, which could lead to the risk that there will not be any supplier for providing goods/service and works for that price. In such case recipient cannot implement investment even though he/she would accept difference to be paid in total by personal sources.</li> <li>3. Beside the fact that second evaluation system is used just for checking if there is a lower price than a contracted one, there is significantly different time frame of conducting these two systems. According to the example, first evaluation is conducted based on prices from February 2018 (minus 2 years – sources for database) and second evaluation is conducted in the mid-2019, 18 – 36 months after first one which could cause big differences in prices and problems in work of DPAP and DAP.</li> <li>4. After procurement procedure, in which recipient defines technical specification of the item (without specifying a model and type of the item), recipient can find out that the item (model and type) with the lowest price is different than one checked in the reference price data base and stated in the contract.</li> </ol> <p>Also, DPAP procedures briefly prescribe announcing of all invitation of offers on the official website of DP. By the insight into documents and during interview with employees from DPAP, we identified that there are no detailed procedures and steps for implementation of this idea, how they plan to treat received offers, who is responsible for particular step, what is allowed by employees, communication with recipients etc. Furthermore, if there is no adequate software solution which will disable review of received offers before prescribed deadline for offers within, there is a high risk of possible conflict of interest or corruption activities by an employee dealing with received offers.</p>	
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	<p>The AA recommends the following:</p> <ul style="list-style-type: none"> <li>• Aligning procedures for evaluation of reasonableness of costs in order to get economically most advantageous price/costs;</li> <li>• The aim of evaluation of the reasonableness of the costs is to provide support based on best/lower price, but the system should allow recipient to pay higher price from personal sources if there is need for such cases (supplier price and paid price could be higher than contracted one, but difference covered from personal sources without support). In that sense, we recommend removing limitation of maximum price in the invitation for offers;</li> <li>• Developing detailed and concise procedures for announcing an invitation of offers on official DP website. Procedure should include responsibilities of employees for each step, concrete actions and communications with the recipient.</li> </ul> <p><b>Auditor's final conclusion:</b></p> <p>Related to the reliability of RPD, as we mentioned in the finding 4.10.1, comparability of the prices cannot be assured if you compare prices from the same supplier.</p> <p>These two evaluation systems are not harmonized based on the fact that RPD contains items per model and type, but procurement procedures contain technical specification of items, and there is possibility that recipient according to the procurement procedure will purchase item which was not a subject of control from RPD. In addition, as we mentioned in finding, in this case purpose of the second evaluation system is not to assess reasonableness of costs, but to check if there is a lower price than a contracted one.</p> <p>When it comes to the limitation of amount defined in the invitation for offers and comparability with the national rules, in the national rules there is no RPD and budget predicted for tender is much higher than the lowest price on the market, i.e. it is based on assumptions and projections. If in theory IPARD Agency doesn't accept AA recommendation related to the removing limitation of maximum price there will be no changes in the RPD, because of the fact that all following invoices and prices will be limited by the current one, which is not reasonable/real market price. In addition, there is a risk that there will not be any supplier for providing contracted items for that</p>	
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	<p>price, especially in cases where old model and type is not in production any more, but there is another type and model with the same technical specification with higher price. In such cases recipient cannot implement investment even though he/she would accept difference to be paid in total by personal sources.</p> <p>Procedures submitted to the AA defines just one part of the procurement procedure, announcement of invitation of the offers, but more important part, receiving the offers and possible complication in case of difference of information received by recipient and IPARD Agency, is not defined (number of offers, name of suppliers etc.).</p> <p>The implementation of the recommendation will be monitored.</p>	
<p><i>FY2018 System Audit Final report (21/01/2019)</i></p>	<p><b>4.3.3 Internal audit capacities</b></p> <p><b>Body/-ies concerned: DMS</b> <b>Level of priority: Intermediate</b></p> <p>According to Rulebook on internal organization and systematization of Ministry of Finance seven job positions have been envisaged in IAD including Head of IAD and six auditors and one is vacant.</p> <p>By the insight into relevant documents the AA identified that IAD, within Ministry of Finance, is responsible for audit of Ministry of finance and all associated bodies within. In addition, they signed 19 Agreements with different Governmental bodies in order to conduct internal audit. As a result, strategic plan, for 2018-2020, defines 166 audits which should be performed in the following three years in order to cover all systems, but according to their capacities for 2018 only 6 audits were envisaged and performed.</p> <p>Bearing in mind the above mentioned and scope of activities of IAD there is an obvious lack of capacities within IAD and this fact may have an impact on the quantity and/or quality of audits of IPA bodies that are envisaged in audit plans.</p> <p>The NAO and IPA management should ensure adequate capacities in IAD for timely and effective execution of internal audit function described in procedures and plans, particularly for audits of</p>	<p><b>Closed</b></p> <p>Taking into account established separate Internal Audit Unit, within Ministry of Finance and Social welfare, that performs only the audit of the IPA bodies, AA concluded that IAU has sufficient capacity to carry out tasks from audit plan.</p>

	<p>IPA bodies aiming at increasing coverage of audit areas which has a high impact on implementation of IPA funds. All prescribed processes/key functions within IPA bodies should be subject of internal audit during strategic planning period. That will provide management with additional assurance of functioning of the IPA MCS.</p>	
<p><i>FY2018 System Audit Final report (21/01/2019)</i></p>	<p><b>4.8.2 Inadequate segregation of duties</b></p> <p><b>Body/-ies concerned: IPARD Agency</b></p> <p><b>Level of priority: Intermediate</b></p> <p>According to Annex B, point 3 (a) (xiii) of Framework Agreement, segregation of duties ensuring that different tasks in the life of the same operation are allocated to different staff to ensure automatic cross-checking controls.</p> <p>According to international auditing standards, adequate segregation of duties is ensured by assigning to different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.</p> <p>During review of accounting software and accounting documents the AA identified that authorization and recording functions are not adequately separated. Namely, accounting software and manual of procedure prescribe that employees from accounting department have responsibility for authorization/closing of the contract with the recipients and/or cancelling of contract which leads to overlapping authorization and recording functions. In addition, according to the manual of procedures, head of DAB has responsibility for making and approving decision on debt deduction which also leads to the overlapping of authorization and recording functions.</p> <p>On the other hand, in case of contract amendments and request for funds from the NFD, employees of DPAP and DEP have accounting/recording role for cancelling the contract or approving/rejections of the request for funds. In this case in accounting software, names of employees who performed book keeping are outside of accounting department. Furthermore, according to the same procedures an accountant has obligations to perform control on these</p>	<p><b>Closed</b></p> <p>Based on submitted evidences and IA response AA concluded that the recommendations were implemented.</p>

	<p>transactions and to fulfil check list after transactions <b>are recorded</b> without possible feedback which has no sense</p> <p>Inadequate segregation of duties causes lower effectiveness of internal controls and could make fraud detection difficult. Without this separation in key processes, fraud and error risks are far less manageable.</p> <p>The AA recommends changing internal procedures, including accounting software, in order to ensure adequate segregation of duties. For example, cancelling of contract should be authorization role of employees from DPAP and/or DAP and accountant should record cancelling of contract based on source document. In case of automatic recording, there should be additional recording step for an accountant who will confirm book keeping after performed control by filling relevant checklist.</p>	
<p><i>FY2018 System Audit Final report (21/01/2019)</i></p>	<p><b>4.10.1 Inadequate sources for calculation of Reference price</b></p> <p><b>Body/-ies concerned: IPARD Agency</b> <b>Level of priority: Intermediate</b></p> <p>According to the Manual of procedures for work in the Reference price database it is prescribed:</p> <ul style="list-style-type: none"> <li>o In order to determine the reference price, there must be a minimum of 3 comparable prices.</li> <li>o The "Reference prices database" should contain data from the following sources: <ul style="list-style-type: none"> <li>• Submitted invoices from the IPARD Programme, MIDAS Project (grant scheme) or the other national measures for rural development</li> <li>• Prices (from invoices) will be entered after investment is finalized</li> <li>• Market research.</li> </ul> </li> </ul> <p>By the insight into the RPD, the AA found out that a total of 717 products/items have been entered and the RPD contains 1840 prices, out of which 1365 are verified and have a valid date, which</p>	<p><b>Remains open</b></p> <p>AA identified that currently RPD contains 842 valid prices out of which 42 were collected by market research. Even though IA started using market research as a source for RPD, the main issues identified in findings are still present.</p> <p>AA encourages IA to plan to establish new unit, within new Act of organisation of Ministry of Agriculture, which will among other things, be responsible for the market research and filing of RPD.</p>



	<p>means that the reference price is not calculated for each entered product, taking into account criteria of minimum three comparable prices for each item.</p> <p>Furthermore, almost all the prices within RPD (for the same product, model and type) entered into the base are taken from one same supplier's invoices which leads to doubt in comparability of prices and to the fact that one supplier significantly influences the reference price. In addition, the reference price database has been filled just from one source, invoices from projects paid through IPARD like 1 and 1.2, and did not take into account market research. For example, for calculation of reference price for fertilizer there are seven invoices from the same supplier and reference price is calculated by average of prices from one source and one supplier. This result does not fulfil comparability criteria <b>and influences on reliability of reference price.</b></p> <p>The AA recommends the following:</p> <ul style="list-style-type: none"> <li>• including an additional condition in RPDB that the RP cannot be calculated if prices are not from minimum two, preferably three suppliers for particular product, in order to reduce one supplier's influence and to have more reliable reference prices. This could be achieved by removing type and model criteria from the RPD, leaving detailed comparable technical specification.</li> <li>• increasing the number of prices, and fulfilling the RPD with prices collected from other sources of data collection as defined in the Manual for work in the Reference price database so the reference price for each entered product/item can be calculated and be more reliable.</li> </ul> <p><b>Auditor's final conclusion:</b> AA consider that assurance, related to the reliability of prices, presented by auditee is not adequate for the purpose of comparability of prices. Comparability is ensured when there are, at least two, but preferably three different sources/suppliers for calculation of the price and cannot be ensured if all prices are from the same supplier.</p> <p>According to the entrusted procedures and documents, Department for Publicity and Authorisation of Projects is responsible for conducting market research as a base for RPD. It is up to auditee how to organize fulfilment of prescribed obligation and to act according to the result of WLA and capacity needs for the purpose of market research.</p>	
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	<p>The fact that the RPD calculation of reference price for exact model and type during contracting phase, can lead to the situation that recipient will not purchase that model and type, because in the transparent procurement procedure it is not allowed to precise model and type, but technical specification instead and supplier can provide different type and model with the same technical specification, which were not subject of control in RPD.</p> <p>The implementation of the recommendation will be monitored.</p>	
	<i>DG AGRI findings</i>	<i>Follow up</i>
<p><b>Ares (2016) 5055192 dated 06/09/2016</b></p> <p><b>Ares (2017) 2326805 dated 05/05/2017</b></p>	<p><b>1.1 Reference price database (planned to be used for equipment and mechanization for Measure 1)</b></p> <p>1. Based on the situation noted during the follow-up mission, it was visible that the price reference database contains 127 items for which 201 prices were available. Without going into the exact number of prices per item but taking into account that at least three prices are required to calculate a reference price, it seems as if the price reference database, as seen during the mission, is not ready to be used.</p> <p><b>Situation as of the latest DG AGRI communication to Montenegro Annex of Ares (2017) 2326805 dated 05/05/2017</b></p> <p><b>PARTIALLY IMPLEMENTED</b></p> <p>Taking into account the findings from the external audit it was evident that the database was not ready to be used. For details please see discussion under point 3 of the Annex of our letter dated 27 April 2016 (Ares (2016)2011812) at Section 2 below.</p> <p><b>FINAL ASSESSMENT</b></p> <p><b>PARTIALLY IMPLEMENTED</b></p> <p>The external auditor findings related to correctness of the data entered in the reference price database can be considered as closed for the purpose of this enquiry, following the assurance</p>	<p><b>Closed</b></p> <p>AA consider this finding closed, because issues related to RPD are in details explained in the status of finding above, point 4.10.1 follow up on AA findings for FY 2018 and issues related to the information security standards are in details explained below in point 1.6 - Ares (2020) 2004695 dated from 09/04/2020.</p>

	<p>gained from the NAOSO that the recommendations have been properly addressed by the IPARD Agency.</p> <p>The recommendations concerning the information security are not considered as closed, although the national authorities have acted based on them. Therefore, the NAO is requested to ensure that the issues identified by the external audit concerning the information security of the reference price database are correctly and completely addressed.</p> <p>To be implemented by the deadline for submission of applications by recipients under the first call.</p> <p><b>Cut off 10.02.2019</b></p> <p><b>Partially implemented</b></p> <p>The reference price database has been filled with data from projects paid through IPARD like 1 and 1.2. As regard to the data entry, verification and calculation of Referent Price, adequate segregation of duties has been provided. Each employee who has access to the RPD has a special role (data entry, verification, calculation and insight) and logging password and for each step taken and work done audit trail remains.</p> <p>By insight into the RPD, the AA found out that a total of 288 products/items have been entered. The RPD contains 1840 prices, from which 939 have a valid date. The system is designed in such a way that prices automatically become invalid after 2 years from the date of issuing the invoice, and currently there is 901 prices with invalid date. Also, the established system requires at least three prices to calculate the reference price.</p> <p>In order to test the functionality of the RPD, the AA has sampled three products and checked all the invoices entered in the RFD for those products. On the basis of the method of calculation of the reference price, taking into account the validity date, variation and discounts, we have calculated the reference price for the sampled products. The results match.</p>	
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	<p>As for the maintenance of the RPD software, IPARD Agency signed contract with the company “NAJTEL” Ltd. with duration of one year from the date of signing the contract.</p> <p>IA has signed contract with company “M-energo inzenjering” Ltd. Podgorica for the aim of implementing project of the automated fire-fighting system using gas.</p> <p>However, the AA has noticed some shortcomings in the reference price database, such as:</p> <ol style="list-style-type: none"> <li>1. the AA identified that the Reference price database do not contain minimum 3 prices for each of 288 items, so the reference price cannot be calculated for each entered product. Furthermore, we identified that RPD contain same number of prices from March 2018, which means that RPD is not updated for more than a year.</li> </ol> <p>The AA recommends increasing the number of prices for particular items so the reference price for each entered product/item can be calculated as well as continues updating of RPD with new prices.</p> <ol style="list-style-type: none"> <li>2. The RPD has been filled with data only from projects paid through IPARD Like 1 and 1.2. Other sources of data collections which are defined in the Manual for work in the Reference price database, such as: market research (explore web pages, visit sites of companies who are selling searched products, visit sites of fairs where different sellers introduce searched products, send mail or call different companies and ask for prices, etc.) and asking for opinion from relevant public institutions (Agricultural faculty, the Engineering chamber, etc.), are not used.</li> <li>3. Almost all the prices (for same product, model and type) entered into the base are taken from one supplier's invoices, which can lead to the fact that one supplier significantly influences the reference price,</li> </ol> <p>In order to have more reliable reference prices, the AA recommends fulfilling the RPD with prices collected from other sources of data collection as defined in the Manual for work in the Reference price database so the reference price for each entered product/item can be calculated and be more reliable. Furthermore, we recommend including an additional condition in RPDB that the RP cannot be calculated if prices are not from minimum two, preferably three suppliers for</p>	
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	<p>particular product, in order to reduce one supplier's influence and to have more reliable reference prices. This could be achieved by removing type and model criteria from the RPD, leaving detailed comparable technical specification.</p> <p>When it comes to the recommendations concerning the information security, having in mind that the NAO has provided final assessment just for a part (for reference price database) of the findings from the external audit report, i.e. the findings related to the information security and accounting software were not involved, the Audit Authority considers that follow up of the remaining findings should be performed by an external audit.</p> <p>The national authorities are requested to provide the results of follow up on findings from final report (issued on the 8/11/2016) performed by external audit related to the information security, which should in particular include extended tests on compliance of the information security policy and procedures and accounting software with the requirements of the FWA and the SA.</p> <p><b>Audit Authority follow up</b></p> <p><b>Cut off 25.01.2020</b></p> <p><b>Remains open</b></p> <p>Limited progress was identified and relates to the shortcoming number 1 and increasing number of items for which reference price can be calculated.</p> <p>However, fact that almost all the prices within RPD (for the same product, model and type) are taken from one same supplier's invoice (for example - 55 invoices for the tractor are from same supplier) leads to doubt of fulfilling comparability criteria and influence on reliability of RPD.</p>	
<p><b>Ares (2016) 5055192 dated 06/09/2016</b></p>	<p><b>3. Recommendation for the NAO</b></p> <p><b>DG AGRI status of recommendations</b></p>	<p><b>Partially closed</b></p> <p>Based on tests performed, AA concluded that IA maintains high information security standards and respect basic principles of ISO 27002 standards.</p>

<b>Ares (2017) 2326805 dated 05/05/2017</b>	<p><b>Situation as of the letter of findings and observations Annex of Ares (2016) 5055192 dated 06/09/2016</b></p> <p>For the same reason, since these parts of the IPARD Agency are being set up only now, DG AGRI considers that they need to be assessed by the external audit required to provide the opinion on the operating structure by point 1.7 of the Annex 3 to the SA. Therefore, the national authorities are requested to provide DG AGRI with the results of this external assessment which should in particular include extended tests on compliance of the accounting software and the compliance of the price reference database with the requirements of the FWA and the SA. As particularly regards the reference price database, among other verifications, the tests should provide a confirmation that the reference prices do not exceed the prices that a reasonably informed operator is able to find in the market. In case this condition is not satisfied, the external auditors should recommend the necessary actions. DG AGRI would also like to point out that, in case the reference prices in the database are also established on the basis of catalogues and producers'/dealers' price lists, due consideration is given to the customary discounts normally applied in the market.</p> <p>Such an assessment may be carried out by an audit firm or by the AA. In case the country decides to use the AA for this assessment, during the subsequent year the auditors carrying out this external audit cannot be involved (not even as reviewers) in the AA audits leading to the Annual Audit Activity Report and the related opinion.</p> <p><b>Situation as of the latest DG AGRI communication to Montenegro Annex of Ares (2017)2326805 dated 05/05/2017</b></p> <p><b>REMAINS OPEN</b></p> <p>Based on the information provided in the latest external audit report issued on the 8/11/2016, serious deficiencies have been found in the areas reviewed (although some of them have been assessed as only low risk by the external audit company). The national authorities were requested to remedy the deficiencies and report on the status of the implementation of the findings with the reply to this letter.</p> <p><b>FINAL ASSESSMENT</b></p>	<p>Regarding recommendations concerning the information security and accounting software, IA requested assessment of the information security and related activities, processes, procedures and documentations from external audit. Content of the public tender was announced on the MIDAS website on 26<sup>th</sup> January 2021. The deadline for submitting bids is February 9, 2021 and signing of the contract is expected by the end of March.</p>
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	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>Part of the findings issued by the external auditor are considered as closed following the assurance gained from the NAO SO that the recommendation in relation to the data entered in the reference price database has been properly addressed by the IPARD Agency.</p> <p>Regarding the remaining recommendations, although the national authorities have acted based on the recommendations given by the external auditor, all findings cannot be considered as closed. Therefore, the NAO is requested to ensure that the identified issues, especially the ones concerning the information security, are correctly and completely addressed.</p> <p>To be implemented by the deadline for submission of applications by recipients under the first call.</p>	
<p><b>Ares (2019) 7226447 dated 22/11/2019</b></p>	<p><b>DG AGRI status of recommendations</b></p> <p>Following the amendments in chapter 5.11 of DP-DAP-00, all offers for procurement of equipment for the recipients will be sent to the IPARD Agency, either by e-mail or by post. The Head of department (DAP) and two responsible advisors of the IPARD Agency will be involved in the procurement procedures of the recipients. Significant administrative work will be carried out in this respect. The proposed modification will increase the workload of the personnel. Given the fact that the IPARD agency is understaffed, this will create a risk of delays in implementation. It is recommended that the IPARD Agency fills in the existing vacancies by recruiting qualified staff. This is of significant importance also in view of the submitted request for entrustment for Measure 7.</p> <p><b>Audit Authority follow up</b></p> <p><b>Cut off 25.01.2020</b></p> <p><b>Remains open</b></p> <p>Taking into account that all current vacancies within sector for structural support are filled with LTEC or TEC, increasing number of employees envisaged for 2020 need changes in act of</p>	<p><b>Remains open</b></p> <p>Amended Rulebook on internal organization and systematization of the Ministry of Agriculture, Forestry and Water Management which implied establishment of new unit for procurement procedures has not been adopted yet. Therefore, this recommendation <b>remains open</b>.</p>

	<p>systematisation of Ministry of agriculture which is time consuming process and AA recommends immediate actions in this respect.</p> <p>According proposed procedures Head of department (DAP) has a main role and responsibility for managing the offers received by email which could significantly increase workload of this particular position, which cannot be mitigated by employment of additional 15 employees planned for 2020.</p>	
<p><b>Ares (2019) 7226447 dated 22/11/2019</b></p>	<p><b>DG AGRI status of recommendations</b></p> <p>As described in chapter 5.11 of DP-DPAP-00, only the Head of DAP will have access to the e-mail to which offers will be submitted. DG AGRI recommends that there should be a back-up person with access to the e-mail in order to ensure business continuity. The confidentiality of treatment of offers received should be guaranteed.</p> <p><b>Audit Authority follow up</b></p> <p><b>Cut off 25.01.2020</b></p> <p><b>Partially implemented</b></p> <p>The backup person is assured.</p> <p>Confidentiality of treatment of offers received is ensured by signing a declaration of confidentiality and impartiality which leave a certain level of risk that guaranty is not completely assured. Complete confidentiality could be assured if no one have possibility to open an offer during tendering procedure which cannot be achieved by receiving of email. In addition, there is no clear and precise procedure when and in which way Head of DAP will forward offers to responsible advisors in order to protect confidentiality.</p> <p>Taking into account that IPARD Agency are using government mail network which has email account capacity limit set up on 500 MB, there is a risk of inadequate capacity for receiving offers</p>	<p><b>Closed</b></p> <p>Considering that the backup person is assured and the fact that e-mail capacity increased to 1 GB, this recommendation could be considered <b>closed</b>.</p>



	<p>on email in case of big number of tenders as well as additional time (workload) necessary for confidential managing of email account in such cases.</p> <p>Adequate backup for email, aligned with requirements for document retention, should be ensured.</p>	
<p><b>Ares (2019) 7226447 dated 22/11/2019</b></p>	<p><b>DG AGRI status of recommendations</b></p> <p>The IPARD Agency is recommended to give publicity of the modified method of submission of offers (e.g. via Internet, press, other media). Taking into consideration that currently the suppliers are contacted directly by the recipients, the proposed change may affect the number of offers collected.</p> <p><b>Audit Authority follow up</b></p> <p><b>Cut off 25.01.2020</b></p> <p><b>Remains open</b></p> <p>It is not clear does recipient or IA have responsibility or can inform potential supplier about tender. IA should develop clear instructions to recipient as well as suppliers in order to define process of submission of offers by supplier, decision making process by recipient as well as role of IA employees during opening of tender.</p>	<p><b>Remains open</b></p> <p>Considering the IA reply, the process of improvement of procurement procedures which implies a clear definition of the responsibilities of all participants in the procurements process is still ongoing. Therefore, this recommendation <b>remains open</b>.</p>
<p><b>Ares (2019) 7226447 dated 22/11/2019</b></p>	<p><b>DG AGRI status of recommendations</b></p> <p>The IPARD agency should update accordingly all related documents like checklists, templates of documents, call for applications, and agreements with recipients.</p> <p><b>Audit Authority follow up</b></p> <p><b>Cut off 25.01.2020</b></p>	<p><b>Partially closed</b></p> <p>IA publishes dates for opening the offers on their official website. However, IA should update and align procedures in line with given recommendation.</p> <p>Considering the IA reply and review of DPAP and DAP MoPs version 2.0, it can be concluded that modifications of the aforementioned annexes (DP-DPAP -00-29a</p>

	<p><b>Partially implemented</b></p> <p>Manual of procedures DP-DAP-00, point 5.5.2 defines that invitation for offers contains date for opening the offers, while DP-DPAP-00-29a and 29b doesn't contain such information. Furthermore, procedures don't prescribe responsibilities and steps regarding defining dates for opening the tenders.</p> <p>In addition, there should be precise description about email content (subject and reference to the tender, scan of original of offer and other details) in order to achieve efficient management of offers received by email.</p> <p>After further analysis AA recommends following modifications of annex "Invitation for the offers":</p> <ul style="list-style-type: none"> <li>• Removing part "In addition to the quoted price, the evaluated price shall include all custom duties, import and any other taxes or fees applicable for goods imported in Montenegro which is not in accordance with article 33, point 3 of Sectoral Agreement which defines that such expenditures are not eligible for support.</li> <li>• Modification of the part "Price quotations will be evaluated for all the items together and contract awarded to the company offering the lower evaluated total cost of all the items" as well as part "The award will be made to the bidder offering the lowest evaluated price and that meets the required standards of technical and financial capabilities" in order to include possibility prescribed in article 8, point 6 of annex "Contract for funds" by which recipient can choose other offer under particular circumstances.</li> </ul>	<p>Invitation for the offers/quotations for goods and DP-DPAP-00-29b Invitation for the offers/quotations for works) haven't been done yet.</p>
<p><b>Ares (2020) 2004695 dated 09/04/2020</b></p>	<p><b>1.1 Staffing situation – Operating structure</b></p> <p>During the analysis of the staff overview tables of the IPARD Agency and the Managing Authority, DG AGRI noted that there is a large number of vacant posts, as well as long-term leaves. This fact was also indicated in the National Authorising Officer's (NAO) assessment of the operating effectiveness of the staff and in the NAO's assessment on whether the operating structure</p>	<p><b>Partially closed</b></p> <p>Based on the submitted documentation and evidences, AA has concluded that the IA has done an improvement in terms of employment and fulfilling vacant posts.</p>

<p>satisfies the requirements for being entrusted. DG AGRI addressed a clarification request to the Montenegrin authorities on 6/12/2019 in relation to this point. Updated staff overview tables were submitted by the Montenegrin Authorities on 12/12/2019.</p> <p>According to the updated staff overview tables, the overall effective job occupation rate at the IPARD Agency was only 68%. Out of a total of 69 posts allocated to the IPARD Agency, 12 were vacant and 10 employees were on long-term leaves (maternity/pregnancy and sick leave). In the four most important departments, the situation is as follows:</p> <ul style="list-style-type: none"> <li>• the department for publicity and authorisation of projects: occupation rate of 69 % (out of 16 posts, 5 employees are on long term leave);</li> <li>• the department for authorisation of payments: occupation rate of 67% (out of 12 posts, 1 is vacant and 3 employees are on long-term leave). DG AGRI noted that there is no Head of Department appointed at this stage. (the previous one was appointed as acting Head of the IPARD Agency in November 2019);</li> <li>• the department for the on-the-spot controls: occupation rate of 80% (out of 15 posts, 3 vacancies); and</li> <li>• the department for execution of payments: occupation rate of 60% (out of 5 posts there are 2 vacant positions).</li> </ul> <p>Following the latest staff and contracts overview table provided on 12/12/2019, the Montenegrin authorities do not plan to fill-in any of the vacant posts of the IPARD Agency in 2020. In addition, there is a serious staff shortage in the Managing Authority, where the occupation rate is only 53% (only 9 out of 17 posts are filled in). No recruitments are planned in 2020.</p> <p><b><u>Recommendation:</u></b></p> <p>The Montenegrin authorities, and in particular the NAO, bearing the overall responsibility for the effective and efficient functioning of the IPA Management and Control System should ensure that immediate corrective actions are taken to remedy the situation described above.</p> <p>The vacant posts in the department for authorisation of payments (1 post), the department for the on-the-spot controls (3 posts) and the department for execution of payments (2 posts) of the IPARD Agency should be filled in as soon as possible.</p> <p>The staff on long-term leave, and in particular the 8 employees in the department for publicity and authorisation of projects and the department for authorisation of payments, should be replaced</p>	<p>Currently there are 72 employees within IA out of which 7 employees are on long-term leaves (maternity/pregnancy and sick leave).</p> <p>At the same time, adoption of the new act on organisation and systematisation is expected by the end of March which should increase a number of positions within IA in line with requirements and recommendations provided by DG AGRI and AA.</p> <p>When it comes to the MA, according WLA for 2021, MA needs 11 employees out of 17 positions envisaged. MA didn't fulfil any LTEC vacant post.</p>
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	<p>by experts on short-term contracts in order not to affect the operational capacity of the IPARD Agency.</p> <p>The Managing Authority should present a realistic planning for recruiting staff to fill the vacant posts.</p> <p>All staff should have the relevant skills and professional experience and should be adequately trained to carry out their tasks.</p> <p><b><u>Based on the above finding, DG AGRI will include the following conditions in Article 7 of the Financing Agreement for measure 7:</u></b></p> <p>Payments to the recipients for measure 7 under IPARD II should not be carried out until DG AGRI has verified and acknowledged by official letter that:</p> <ul style="list-style-type: none"> <li>- The vacant posts in the IPARD Agency, based on the latest update of 12 December 2019, are filled in to ensure sufficient human resources are available in the departments for authorisation of payments, the department for the on-the-spot controls and the department for execution of payments of the IPARD Agency. In addition, replacement staff with the necessary skills for employees on long-term leave in the department for publicity and authorisation of projects and the department for authorisation of payments should also be put in place.</li> <li>- The Managing Authority has presented a realistic planning for filling in their vacant posts.</li> </ul> <p>DG AGRI will verify the corrective measures taken and acknowledge by official letter that the above conditions are lifted.</p>	
<p><b>Ares (2020) 2004695 dated 09/04/2020</b></p>	<p><b>1.2 Permanent Appointment of the Head of the IPARD Agency and the Head of the Managing Authority.</b></p> <p>DG AGRI was informed by the Montenegrin authorities on 28/11/2019 about the resignation of the previous Director of the IPARD Agency and the appointment of the Head of Department for authorisation of payments within the Directorate for Payments as acting Director of the IPARD Agency.</p> <p>DG AGRI also noted that the Head of the Managing Authority, was re-appointed on 18/07/2019 for only 6 months (new mandate of the Government of Montenegro).</p> <p>According to the national rules, the Head of the IPARD Agency and the Head of the Managing Authority are nominated either for 6 months or for 5 years. If nominated for 6 months, this can be extended for another 6 months (only once).</p>	<p><b>Partially closed</b></p> <p>IA</p> <p>Head of IA was appointed on June 25<sup>th</sup> 2020 on five years period.</p> <p>MA</p> <p>Mr Darko Konjević, on his personnel request, resigned from the position of the Director General/Head of Managing Authority in February 9<sup>th</sup> 2021. Government of Montenegro officially terminated his mandate on the session held on February 11<sup>th</sup> 2021.</p>

	<p>DG AGRI considers that the Montenegrin authorities should proceed to official permanent/long-term appointments for these two key positions.</p> <p><b><u>Recommendation:</u></b></p> <p>The Montenegrin authorities should take immediate corrective measure to appoint a Director (not an acting Director) of the IPARD Agency and a Head of the Managing authority on a permanent/long-term basis. DG AGRI should be notified accordingly.</p> <p><b><u>Based on the above finding, DG AGRI will include the following condition in Article 7 of the Financing Agreement for measure 7:</u></b></p> <p>The Montenegrin authorities will replace the short-term appointments, based on the latest update of 12 December 2019, for the Head of the IPARD Agency and the Head of the Managing Authority to permanent/long-term appointments.</p> <p>DG AGRI will verify the corrective measures taken and acknowledge by official letter that this condition is lifted.</p>	<p>It is important to emphasize that MA functions shall continue to properly contribute to business continuity in accordance with specific Substitution Plan in force. Respecting procedural provisions, General Director/ HoMA is substituted by the Head of Department for Monitoring, Evaluation and Reporting. This position is at the moment covered by Mr Enis Gjokaj. In case of absence of General director/ HoMA as well as Head of Department for Monitoring, Evaluation and Reporting, Head of MA function will be covered by Head of Department for Programming, Ms Irina Vukčević.</p> <p>Ministry of Agriculture, Forestry and Water Management is in the process of the preparation of the new draft Internal Rulebook on organisation and systematisation which will be platform for appointment of ne Head of Managing Authority.</p>
<p><b>Ares (2020) 2004695 dated 09/04/2020</b></p>	<p><b>1.3 Permanent Appointment of the Head of the Audit Authority</b></p> <p>Since 2018, there is an acting Head of the Audit Authority in Montenegro. By NAO's letter dated 20/01/2020, DG AGRI was informed that the acting Head of the Audit Authority is officially appointed as Deputy Auditor General and will continue to carry out the function of acting Head of the Audit Authority. DG AGRI considers that an official appointment of the Head of the Audit Authority (Auditor General) should take place in accordance with Clause 5 (1) of Annex A of the Framework Agreement.</p> <p><b>Recommendation:</b></p> <p>The Montenegrin authorities should officially appoint a Head of the Audit Authority on a permanent/long term basis. This recommendation should be implemented as soon as possible.</p>	<p><b>Remains open</b></p> <p>Official appointment of Head of Audit Authority, i.e. Auditor General has not been made since November 2018.</p>

<b>Ares (2020) 2004695 dated 09/04/2020</b>	<p><b>1.4 Staff Retention policy</b></p> <p>DG AGRI notes the efforts of the Montenegrin Authorities in relation to staff retention. For some of the employees (mainly in the IPARD Agency), the short-term contracts were transformed into long-term ones. Nevertheless, there is still a significant number of employees appointed on a short-term basis. This is the case for 15 out of the 57 recruitments in the IPARD Agency. A stable staff situation is crucial in the IPA environment.</p> <p><b>Recommendation:</b></p> <p>The Montenegrin authorities should ensure that there is an appropriate staff retention policy in place. They should take corrective actions as soon as possible to ensure that competent staff with the sufficient skills are recruited on permanent and/or long-term contracts. The Audit Authority should follow-up this issue in its Annual Audit Activity Report in the context of the acceptance of accounts for financial year 2020 and report on the outcome of the measures taken.</p>	<p><b>Partially closed</b></p> <p>Decision on top up salaries is identified as successful motivation tool related to retention policy. However, due to the financial situation caused by COVID 19 outbreaks, top up salaries were not paid regularly during FY 2020, but started in FY 2021.</p>
<b>Ares (2020) 2004695 dated 09/04/2020</b>	<p><b>1.5 Internal Audit function</b></p> <p>DG AGRI noted that there was a lack of audit capacity in 2018 as the auditors were not adequately trained. In 2019 one of the internal auditors obtained a professional qualification and another auditor is in the process.</p> <p>DG AGRI notes that the Montenegrin Authorities, on the basis of the new Decree on establishment of the Internal Audit in the Public Sector, are in a process of reorganisation of the internal audit function. There will be a central Internal Audit Unit in charge of EU funds within the Ministry of Finance, covering all line ministries spending EU funds through indirect management.</p> <p><b>Recommendation:</b></p> <p>The Montenegrin Authorities, and in particular the NAO, should inform DG AGRI on the further development of the reorganisation of the internal audit function. The staff of the newly established Internal Audit Unit in charge of EU funds within the Ministry of Finance, and in particular the auditors responsible for IPARD, should have the relevant professional experience and skills, should be adequately trained for the specificities of the IPARD measures and should possess</p>	<p><b>Closed</b></p> <p>By analysing documents, AA concluded that new Rulebook on Internal organization and systematization of the Ministry of Finance and Social Welfare includes separate Internal Audit Department for auditing of EU funds. Head of unit was appointed and position of Junior internal auditor was fulfilled. The AA emphasises that, even though established to cover all line ministries spending EU funds through indirect management, this department doesn't include IPARD Agency and Managing Authority within audit scope. Internal audit function related to the IA and MA relies on internal audit of Ministry of Agriculture as it was case before. The internal auditor within IPARD Agency gained adequate certificates and attended a several trainings during FY</p>

	<p>professional audit qualifications. The Audit Authority should assess within its Annual Audit Activity Report in the context of the acceptance of accounts for financial year 2020 the re-organisation of the Internal audit function and its compliance with the requirements of Section 5 of Annex B to the Framework Agreement (FWA) and Section 5 of Annex 2 to the Sectoral Agreement (SA).</p>	<p>2020. The newly established department within Ministry of finance and social welfare will be responsible for audit of NAO and DMS functions.</p> <p>AA identified possible overlapping between responsibilities of newly established central audit department and internal audit department within Ministry of Agriculture.</p>
<p><b>Ares (2020)</b> <b>2004695</b> <b>dated</b> <b>09/04/2020</b></p>	<p><b>1.6 Information systems security</b></p> <p>According to the FWA and the SA, the information systems security standard applicable for the IPARD Agency is the current version of the ISO 27002:20131.</p> <p>For the purposes of point (b) of Section 3 of Annex B to the FWA, information systems security shall be based on the criteria laid down in a version applicable in the financial year concerned of the International Standards Organisation 27002: Code of practice for Information Security controls (ISO) or equivalent.</p> <p><b>Recommendations:</b></p> <p>The IPARD Agency should ensure that the ISO 27002:2013 information systems security requirements are taken into account as referred to in the specific complementary provisions.</p> <p>The planned future IT developments should also take into account the relevant ISO 27002:2103 security requirements.</p> <p>The Audit Authority should assess within its Annual Audit Activity Report in the context of the acceptance of accounts for financial year 2020 the compliance of the IT security in the IPARD Agency with the requirements of Section 3 point (b) of Annex B to the FWA and point 3 of Annex 2 to the SA</p>	<p><b>Partially closed</b></p> <p>Based on tests performed, AA concluded that IA maintains high information security standards and respects basic principles of ISO 27002 standards.</p> <p>On other hand, AA identified that there is an insufficient number of employees in this sector. The position of the Head of the IT sector is vacant and there are only two employees in sector out of which one is on temporary basis. Beside the head of department there are 4 vacant positions more which indicates that number of employees in the IT sector is critically limited. There is a high risk for continuation of operation as well as inadequate segregation of duties which would increase opportunities for unauthorized modification or misuse of information.</p> <p>The AA recommends fulfilling the position of Head of the IT sector as well as fulfilling the remaining vacant posts within this sector as soon as possible.</p> <p>In addition, IA requested assessment of the information security and related activities, processes, procedures</p>

		and documentations from external audit. Content of the public tender was announced on the MIDAS website on 26 <sup>th</sup> January 2021. The deadline for submitting bids is February 9, 2021 and signing of the contract is expected till end of March 2021.
<b>Ares (2020) 2004695 dated 09/04/2020</b>	<p><b>1.7 Modification in the Manual of procedures for the IPARD Agency</b></p> <p>During the review of the Manual of Procedures, DG AGRI noted that according to the Table of modifications for the Directorate of Payments of the IPARD Agency (DP-SAA-GA-01-08), there is a change in checklist DP-DAP-00-07-1 for measure 1, which is already entrusted. The Directorate for Payments updated one of the questions (Q26) for verification on whether the recipient has provided a contract for the supplies/construction/services to be financed under the project. The initial checklist included verification whether the contract defined the assets, the models/makes and/or the existence of technical specifications, while this check is taken out from the modified checklist. The technical characteristics/specifications should be part of the contract and the respective check should be carried out.</p> <p>The same observation is applicable for the checklists for measure 7 (DP-DAP-00-07-7 – question 29) and measure 3 (DP-DAP-00-07-3 – question 26)</p> <p><b>Recommendation:</b></p> <p>The IPARD Agency should update immediately its checklists DP-DAP-00-07-1, DP-DAP-00-07-3 and DP-DAP-00-07-7 in order to ensure that there is a verification that the technical characteristics/specifications are included or annexed to the contracts (supplies/construction/services). The updated checklists should be submitted to DG AGRI <u>within 30 days from receipt of this letter</u> given the fact that measures 1 and 3 are already in implementation phase. The Audit Authority should assess within its Annual Audit Activity Report in the context of the acceptance of accounts for financial year 2020 whether the IPARD Agency carried out the relevant checks.</p>	<p><b>Closed</b></p> <p>IPARD Agency has updated checklists DP-DAP-00-07-1, DP- DAP-00-07-3 and DP-DAP-00-07-7, and incorporated in the new version of MoP (2.0), which was adopted on January 31st 2020. Therefore, the AA considers this finding closed.</p>
<b>Ares (2020) 2004695</b>	<b>1.8 Irregularities and Whistle blowing</b>	<b>Closed</b>



<p><b>dated</b> <b>09/04/2020</b></p>	<p>During DG AGRI's review of the procedures of the IPARD Agency it became clear that there is a technical issue regarding the reporting of irregularities by the citizens (whistle-blowing) on the website of the IPARD Agency. The anonymity of the whistle-blowers is not ensured as the name and e-mail address are visible to the IPARD staff. This issue was already identified by the Audit Authority in its Annual Audit Activity Report for financial year 2018. So far, no solution is found. Nevertheless, the IPARD Agency website provides other reporting options for citizens – by post, by telephone, by direct contact with the Irregularity officer and a link to OLAF's webpage.</p> <p><b>Recommendation:</b></p> <p>The Montenegrin authorities should ensure that the anonymity of the citizens reporting irregularities (whistle-blowers) is protected. A relevant IT solution should be found. The Audit Authority should follow-up this recommendation in its Annual Audit Activity Report for financial year 2020.</p>	<p>IA has allowed reporting on irregularity or fraud in different ways, not just via e-mail, such as sending the letter to their address with remark: REPORT ON IRREGULARITY – DO NOT OPEN, in person to the Irregularity officer, in the premises of the IPARD Agency, by telephone number, by OLAF internet page.</p> <p>All those channels are put on IPARD web site <a href="http://www.ipard.gov.me/Rubrike/Prijava_nepravilnosti/">http://www.ipard.gov.me/Rubrike/Prijava_nepravilnosti/</a>.</p> <p>Taking into account above mentioned, AA considers this finding closed.</p>
<p><b>Ares (2020)</b> <b>2004695</b> <b>dated</b> <b>09/04/2020</b></p>	<p><b>1.9 Minor updates in the checklist / documents submitted</b></p> <p>There were some wrong cross-references in the Manuals of procedures, mainly for the IPARD Agency. There was no indication of Measure 7 in some of the documents.</p> <p><b>Recommendation:</b></p> <p>The Montenegrin authorities should update the cross-references and the reference to Measure 7 in their Manual of Procedures and relevant checklists.</p>	<p><b>Closed</b></p> <p>IA included cross-references and the reference to Measure 7 in new version of MoP (2.0), so the AA considers this finding closed.</p>

When it comes to the follow up on AA recommendations, IPARD bodies took appropriate actions and out of 28 recommendations issued during 2018 (4) and 2019 (24), 21 are implemented, 4 partially implemented and 3 remain open.

As regards DG AGRI's recommendations, there were 15 recommendations in total, out of which, 6 are closed, 6 are partially closed and 3 are still opened.

## **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**

AA confirms that it is not aware of any subsequent events affecting the previous audit opinion and the previous AAAR, i.e. for FY 2019.

## **8. OTHER INFORMATION**

### **8.1 Information on reported fraud and suspicions of fraud, together with the measures taken**

There weren't any fraud cases or suspicion of fraud cases so this part is not applicable.

### **8.2 Subsequent events that occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual audit activity report under Art. 12 (3) of Commission Implementing Regulation (EU) No 447/2014 to the Commission and considered when establishing the level of assurance and opinion by the audit authority**

As explained in Sections 1.3 and 2.1 of this Report, in the period between the Declaration of expenditure and financial statements were submitted to the Commission and the issuance of AAAR, one substantial change occurred related to appointment of the key IPARD staff. Namely, Mr Janko Odović, State Secretary within Ministry of Finance was appointed as National Authorising officer on 25<sup>th</sup> February 2021.

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

Pursuant to Article 9(4) of Commission Implementing Regulation (EU) No 447/2014 and Annex C from the FwA, by 15 February of the following FY, the NAO shall, with a copy to the NIPAC and the AA, provide the Commission with an Annual Management Declaration per programme drawn up in accordance with Annex C to the FwA and covering:

- the overall responsibility for the financial management of EU funds and for the legality and regularity of the underlying transactions;
- the responsibility for the effective functioning of the management and internal control systems under IPA II;
- the conformity of the system and the effective functioning of the management and control system in the previous year.

In the Annual Management Declaration for FY 2020 for IPARD II submitted by NAO to EC, No. 01-2053/1 from 15<sup>th</sup> February of 2021, the NAO declared that:

- the information in the Annual Financial reports or statements is properly presented, complete and accurate in accordance with Article 23 (1) (b) of Commission Implementing Regulation (EU) N° 447/2014;
- the expenditure entered in the Annual Financial reports or statements was used for its intended purpose, in accordance with Commission Implementing Regulation (EU) N° 447/2014, and the principle of sound financial management;
- the management and control system put in place for the programme gives the necessary guarantees concerning the legality and regularity of the underlying transactions;
- operation of the internal control system relating to the implementation of IPA II and related to the Financing Agreement has been supervised.

Beside above mentioned, Declaration of the NAO is subject to reservation related to the substantial changes of the IPA institutional and organisational framework caused by the formation of the new Government. The AA has provided detailed description related to the substantial changes within IPARD II framework in section 2.1 of this Report.

The AA reviewed the AMD and supporting documents issued by NAO. In this respect, the AA made the following verifications:

- Overview of the key audit findings and recommendations issued in 2020
- Overview of the results of KRI measurement
- Overview of the results of KPI measurement and comparison between 2019 and 2020
- Overview of Irregularity Reports in 2020
- Overview of risks treated in 2020
- Staff overview table and progress in respect to staff capacities and staff fluctuation
- Register of Changes
- Registers of exceptions of NAO/MS and IPARD OD bodies
- Follow up of the Action plan on n+4 rule for the allocations 2016 and 2017 IPARD II
- Follow-up on the Action plan in regards to entrustment of the Measure 7 of the IPARD II Programme.

After performed verifications, the AA confirmed the following:

- The Annual Management declaration was submitted according to the article 59 (2) and Annex C of the Framework agreement for IPA II;
- The process of preparation of AMD was in line with NAO internal procedures. The AMD was supported by the NAO Assessment Report on functioning of MCS for the year 2020 and additional supporting annexes;
- The audit work carried out does not put in doubt the assertions made in the management declaration.

## 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.

Based on scope of audit performed, the AA has obtained reasonable assurance for the results presented within this Report. The overall level of assurance on the proper functioning of the management and control systems is based on the result of the systems audit and the audit of samples of transactions including the results of the audit of accounts carried out for the expenditure declared to the European Commission for the FY 2020:

- By auditing the accounts, the AA has obtained a reasonable assurance that the amounts stated in the annual accounts are correct, accurate and true (described in Chapter 6 of this Report).
- Based on the audit of sampled transactions, the AA has obtained a reasonable assurance on the legality and regularity of the expenditure declared to the Commission (described in Chapter 5 of this Report).

Considering that AA didn't use statistical sampling methodology, AA didn't define expected error. Based on section 7.1.3.2 which applies for statistical sampling, confidence level obtained from compliance testing is 10% (ICS is assessed as "Works") and confidence level obtained from substantive testing is 85 % as presented in table below:

<i>Total assurance</i>	<i>Confidence from compliance testing (confidence level required)</i>	<i>Confidence from substantive testing (confidence level required)</i>	<i>Expected error</i>
95%	10%	85%	/

### 9.2 Analysis of any significant deficiency(ies)

Significant deficiencies are summarised in section 4.4.1 as well as section 5.18 of this Report.

Total error rate related to the expenditure declared in the financial year is above the materiality level, based on results of audits performed during FY 2020. However, AA does not assess errors identified in population as serious deficiencies in the functioning of the management and control system during the year. Amount of the error is affected by one operation which doesn't present an error of systematic nature.

As AA already emphasized within AAAR for FY 2018 (Annex 1, finding no.8) as well as within AAAR for FY 2019 (section 4.4), risk of de-commitment of unused funds is still very high, even though IA slightly increased efficiency of the overall process. Currently, through the IPARD Programme, Montenegro has at disposal more than 10 million € to be spent by the end of 2021, which could significantly contribute to

strengthening of agriculture sector in Montenegro which is under additional pressure caused by COVID – 19 outbreaks.

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

The corrective actions should be taken with regard to the improvement of the management and control systems and the correction of identified errors, i.e. implementing of recommendations arising from both system audit and audit of sampled transactions. With regard to irregularity identified and related financial errors, relevant provisions of the Sectoral and Framework Agreements should be followed in the efficient manner.

The AA recommends to the top management of IPARD structure to immediately take appropriate corrective measures in order to speed up the overall process of implementation of IPARD Programme with the view to increasing efficiency and effectiveness, increasing absorption rate and mitigating risk of de-commitment of unused funds. Among others, this could be achieved by more frequent publishing public calls in order to allow potential recipients to correct inconsistency in vague request for support and apply for new request as soon as possible, strengthen the publicity related to the planned public calls, simplify procedure for recipient by better inter institutional cooperation, etc.

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

There were no subsequent adjustments made and corrective actions taken.

## 10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

	A	B		C	D	E		F	GI	JH
Fund/ Programme	Expenditure declared to the Commission in reference to the year	Expenditure audited and its part from the expenditure declared to the Commission		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Other expenditure audited <sup>39</sup>	Amount of irregular expenditure in the expenditure sample (if any)
		Public (EU + national)	EU part only			Amount	%	%		
Programme for Agriculture and Rural development of Montenegro - IPARD II	3.457.758,96€	1.324.198,86€	993.149,09€	161	33	23.352,36€	2.35	2.35	/	/

## 11. ABBREVIATION AND ANNEXES

- **Annex 1 Evaluation of the ICS**
- **Annex 2 Substantive testing of operational transactions**
- **Annex 3 Substantive testing of non - operational transactions**
- **Annex 4 Compliance testing of operational transactions**
- **Annex 5 List of selected and audited items for substantive testing of non-statistical**

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<sup>39</sup> Expenditure from complementary sample and expenditure for random sample not in the reference year (amount).

List of abbreviation

AA	Audit Authority
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AFCOS	Anti - fraud Coordination Service
AMD	Annual Management Declaration
AWP	Annual Work Plan
CFF	Cash flow forecast
CHU	Central Harmonization Unit
DAB	Department for Accounting and Budget
DAP	Department for Authorisation of Payments
DEP	Department for Execution of Payments
DG AGRI	Directorate-General for Agriculture and Rural Development
DMS	Directorate for Management Structure
DOSC	Department for On-the-spot control
DP	Directorate for Payments
DPAP	Department for Publicity and Authorisation of Projects
EC	European Commission
EU	European Union
FA	Financing Agreement
FY	Financial Year
FwA	Framework Agreement
HNFD	Head of National Fund Division
IA	IPARD Agency
IAD	Internal Audit Department
IPA	Instrument for Pre-accession Assistance
ICFR	Internal Control Framework Requirement
IPARD II Programme	Programme for the Development of Agriculture and Rural Areas in Montenegro
KPIs	Key Performance Indicators
LEE	List of eligible expenditures
MA	Managing Authority
MARD	Ministry of Agriculture and Rural Development

MCS	Management Control System
MF	Ministry of Finance
MIDAS	Montenegro Institutional Development and Strengthening project
MOP	Manual of Procedures
MPA	Ministry of Public Administration
NAO	National Authorising Officer
NAOSO	The NAO Support Office
NF	National Fund Division
NIPAC	National IPA coordinator
OG	Official Gazette of Montenegro
OTSC	On the spot control
RC	Risk Coordinator
RfF	Request for Funds
RM	Risk Manager
RMP	Risk Management Panel
RPD	Reference price Database
SA	Sectorial Agreement
SSOs	System Supervision Officers
WLA	Work Load Analysis