



MONTENEGRO
AUDIT AUTHORITY

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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 2022

Podgorica, March 15th, 2023

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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. Ms. Ksenija Barjaktarović was appointed by the Government of Montenegro as Auditor General on session held November 16th, 2022.

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	Marko Tomčić	Authorized Auditor / Coordinator of Department for audit of the program of agricultural and rural development	4 years and 11 months	4 years and 11 months	P	Certified auditor/ State auditor	All members of the AA's IPARD team were involved in the preparation of this Report
	Maja Klikovac	Authorized Auditor	2 years and 5 months	2 years and 5 months	P	Certified auditor/ State auditor	
	Marija Perović	Senior Auditor	6 years and 3 months	6 years and 3 months	P	Certified auditor/ State auditor	
	Luka Miranović	Junior Auditor	1 year and 10 months	1 year and 10 months	P	N/A	

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 **1st January to 31st December 2022**.

The audit activities performed in the audit period for the financial year were governed by the **Audit Strategy 2022-2024**. Audit period began on June 23rd 2022, and ended on 9th March 2023 when the last final audit report was sent to the auditees.

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

In the context of system audit, in accordance with the Audit Strategy 2022-2024, the AA performed system audit with objective to determine whether the Internal Control systems (hereinafter ICS) established in the IPARD Agency (hereinafter IA), National Fund Division (hereinafter NFD) and NAO support office (hereinafter NAOSO), for financial year 2022, are 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 overall Management, control and supervision system (hereinafter MCS). System Audit of MCS was based on written procedures (test of procedures) and compliance testing¹ (test of controls) in Directorate for Management structure (NAO/SO and NFD) and Operating structure (IA). Following audit areas were examined:

No	Scope of the audit		
	Assessment criteria and sub criteria (ICFR) (AC)	Auditee	Process / sub-process
1.	1(c)	NAOSO, NDF	Establishment of structures, reporting lines, and authorities and responsibilities
2.	1(d)	NAOSO, NDF	Staff planning, recruitment, retention, training and appraisal
3.	1(e)	NAOSO, NDF	Accountability for allocated tasks and responsibilities
4.	3(a)	IA	Selection and development of control activities
5.	3(b)	IA	Security control activities

¹ For the compliance testing, the AA sampled 10 transactions using dual purpose testing as explained in section 4.2 (2) of this Report

6.	3(c)	IA	Policies and procedures related to control activities
7.	4(a)	IA, NAOSO, NDF	Information to support functioning of internal controls
8.	4(b)	IA, NAOSO, NDF	Internal communication
9.	4(c)	IA, NAOSO, NDF	External communication
10.	5(a)	IA	On-going and specific monitoring

In the context of audit of operational transactions, in accordance with the Audit Strategy 2022-2024, the AA performed test of transactions with objective to confirm the legality and regularity of declared expenditures in financial year 2022. 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 operations related to expenditure declared in the last quarter of FY 2022 (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 2022 (in accordance with the Annual Declaration (Form D2)) is presented in the table below:

Quarter in 2022	Number of executed final payments in quarter	Number of executed interim payments in quarter	Number of executed advance payments in quarter	Amount of executed final payments (EU/IPA part) €	Amount of executed final payments (National part) €	Amount of executed interim payments (EU/IPA part) €	Amount of executed interim payments (National part) €	Amount of executed advance payments (EU/IPA part) €	Amount of executed advance payments (National part) €
Q1	16	2	1	1.321.140,23	440.380,10	102.967,29	34.322,44	95.452,50	31.817,51
Q2	14	1	1	1.088.152,55	362.717,56	9.915,25	3.305,08	19.325,96	6.441,99
Q3	13	0	1	694.041,47	231.347,16	0	0	121.276,09	40.425,36
Q4	41	6	1	1.970.966,08	656.988,79	369.365,51	123.121,84	280.995,94	93.665,31
Total	84	9	4	5.074.300,33	1.691.433,61	482.248,05	160.749,36	517.050,49	172.350,17

Bearing in mind that advance as well as interim payments to the recipients have been introduced as an option, as presented in the table above, in the D1s for the FY 2022 there are executed and declared payments to the EC regarding advance payments (4 payments in total), as well as payments which represent final and interim payments under the contracts financed from IPARD programme, i.e. 84 final and 9 interim payments.

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. $93 \times 20\% \approx 20$ operational transactions to be tested. The total population for the audit of operation consists of all final and interim payments to recipients, without advances which present non-operational transactions. Taking into consideration the population size of operational transactions, i.e.

number of executed final and interim payments in FY 2022, the AA applied non-statistical sampling in order to determine the sample size for operational transactions.

In the context of audit of accounts, in accordance with the Audit Strategy 2022-2024, 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. According to Guidelines No.2 - IPARD II Audit Strategy and No.3 - IPARD II Annual audit activity report the AA also performed substantive testing of non-operational transactions (irregularities/debts, advances and transactions in the IPARD Euro account).

In the context of follow up, in accordance with the Audit Strategy 2022-2024, the AA performed follow up on recommendations² issued in previous AAARs, 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 20th July 2015, modified on 7th May 2019, 1st April 2021 as well as on 2nd February 2023 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.

In addition, the amended Financing Agreement 2014-2020 for IPARD II entered into force on June 2021 and by signing this amendment, Montenegro received conditional entrustment for measure 7 of the IPARD II Programme:

- Farm diversification and business development.

Further, on 2nd February 2022, the NAO has submitted to the EC the official Request for entrustment with budget implementation tasks under IPARD II Programme for Measure 9 – Technical assistance which has been prepared by national authorities.

²Presented in detail in Section 7.1 of this Report

According to the NAO Assessment report, after official submission of REBIT for measure 9, request for providing external audit opinion on legal and institutional framework of the accreditation package was submitted by DG AGRI. Process of engagement of the external audit company for providing this independent opinion, initiated by Ministry of Finance/DMS, is in final phase, and external audit report will be submitted to DG AGRI insight consequently.

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 Milena Žižić**, State Secretary in the Ministry of European Affairs appointed on 20th January 2023 The NIPAC is responsible for strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance;
- The National Authorizing Officer –**Ms Ana Raičević– Secretary General** in the Ministry of Finance appointed on 20th January 2023 as NAO. The NAO has overall responsibility for the financial management of IPA II assistance in Montenegro and for 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) – Deputy NAO – **Ms Anja Amidžić** - Director General of the Directorate for Management Structure. At the session held on December 28th 2022, Government adopted the Decision on the re-appointment of Ms Anja Amidžić. The DMS consists of two separate divisions, which are formally established on October 25th 2017:
 - The National Fund Division – **Ms Žana Jovanović** - Head of NFD from April 1st 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 – **Mr Velibor Damjanović** – Head of NAOSO from April 1st 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) – **Ms Andrijana Rakočević**, Director General of the Directorate for Rural Development (MA), appointed on 16th September 2021 as acting and on 2nd February 2022 formally by the Government of Montenegro. The MA is responsible for preparation, monitoring of implementation of IPA II rural development programmes and evaluation.

- IPARD Agency (hereinafter IA) – **Mr Vladislav Bojović**, Acting Director General of the Directorate for payments (IA), appointed by the Government of Montenegro on 16th September 2021. At the Government session held on September 13th 2022, Mr Vladislav Bojović has been re-appointed)

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, DG AGRI has been already informed that Montenegro public administration suffered a serious cyber-attacks in the August 2022. Despite that, the IA managed to preserve the IT network with no corruption in workstations as well as server and software's functionalities and their data and information were backed up and safeguarded. But, most of the second half of 2022, official e-mail communication with the IA as well as with the rest of the structure was disabled. However, the IA continued to perform their activities without interruption of process.

On the other hand, ICS system and relevant procedures related to IPARD II, are designed in a way that recipient submits application and all supporting documents in paper form via official mail, all controls and checks performed on application itself are paper-based, controllers print and fill the checklist without any IT solutions, and this is one of the reasons that processing of applications in the IA passed without major consequences. Also, all official communication with recipients and within management structure is mainly paper-based.

Bearing in mind existing challenges, the AA considers that IA should take further steps in upgrading IT system as well as in strengthening of Division for IT, where additional employments are crucial. According to the latest staff overview document there are still 3 employees (2 on long-term and 1 on short-term contract) although the Rulebook envisaged 5 working posts (without Head of IT). Therefore, the AA recommends taking steps to fill the vacant positions. Regarding position of the Head of IT, the internal announcement for the relevant position was published in November 2022. In December 2022, the candidate for position Head of IT passed the test. However, decision on employment was not made until submission of this Report.

In addition, in order to increase efficiency, the AA encourages the IA to develop IT solutions which could increase efficiency of the whole process such as MIS/IMS or similar system for electronic upload of applications and providing information and communication with other stakeholders, development of software for automatic control of completeness of applications, etc.

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 2022.

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 2022³ to the Commission with a copy to the NIPAC and AA.

With a view to drawing up an audit opinion, the 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.

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 2022, following the Guideline 8 and form defined by Annex E of the FWA.

The 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.

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

The NAO has issued the AMD for FY 2022 with a reservation regarding weaknesses identified in IPARD Agency related to the bottlenecks on timely and adequate communication. As it was stated in the AP on NAO reservations from AMD for 2022, the main shortcomings are: lack of staff and establishment of the precise reporting lines within and outside IA in 2022 as well as absence of long-term functional solution at the position of the Head of IPARD Agency which additionally provoked incoherent influence on internal control mechanisms and absorption of the available IPARD II funds. However, certain mitigation measures are determined and refer to: appointment of the Head of IPARD Agency on long term basis; incorporating changes within MAFWM Internal Rulebook related to the communication and reporting tasks within specific division and changes of procedures in respect to communication and reporting concerning internal and external communication channels. The implementation of these measures is expected in the first half of 2023.

³ On 15th February 2023 (Ref. 05-908/23-89/1)

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

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 approval of the EC by	Date of entry into force
				AA	EC		
All IPARD II Institutions – reconstruction and reorganization of the institutional framework	With the formation of the new Government of Montenegro, the Decree on the organization and manner of work of the state administration has been adopted on April 29th 2022. The mentioned Decree has significantly changed the organization of the entire state administration, reflecting on IPA units within reorganized ministries. In accordance with the Decree social welfare policy is no longer under the responsibility of Ministry of finance. Also, NIPAC office is now part of the Ministry of the European Affairs.	Substantial 29/04/2022	M	7/5/2022	7/5/2022	N/A	06/05/2022
IPARD Agency	New Sector established within IPARD Agency – Sector for evaluation and approval of projects.	26/5/2022	M	N/A	N/A	N/A	26/5/2022

<i>DMS</i>	<i>Adoption of the Version 2.1. regarding Financial Management</i>	<i>Substantial</i>	<i>M</i>	<i>No information</i>	<i>No information</i>	<i>N/A</i>	<i>03/03/2022</i>
<i>Sectoral Agreement</i>	<i>Sectoral Agreement between the Government of Montenegro and the European Commission was ratified at the session of the Parliament of Montenegro in December 29th 2022 and published in Official gazette of Montenegro on January 12th 2023</i>	<i>Substantial n/a</i>	<i>H</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>12/1/2023</i>
<i>Implementing Agreement</i>	<i>Signing of the Implementing agreement between NAO, NIPAC, Head of the IA and Head of the MA in the policy area Agriculture and Rural Development</i>	<i>Substantial n/a</i>	<i>M</i>	<i>15/02/2022</i>	<i>15/02/2022⁴</i>	<i>n/a</i>	<i>27/01/2022</i>
<i>Operational Agreement</i>	<i>Signing of Operational Agreement on the implementation of the Measure 9 Technical Assistance under IPARD</i>	<i>Substantial n/a</i>	<i>M</i>	<i>15/02/2022</i>	<i>15/02/2022⁵</i>	<i>n/a</i>	<i>28/01/2022</i>

⁴ Within AMD 2021

⁵ Within AMD 2021

	<i>II Programme (2014-2020)</i>						
<i>IPARD Programme</i>	<i>Programme for the Development of Agriculture and Rural Areas in Montenegro under IPARD II 2014-2020, version 1.4 approved by European Commission on December 29th 2022 and adopted by Government of Montenegro on February 2nd 2023</i>					<i>29th December 2022</i>	<i>2nd February 2023</i>

The Following table presents key staff changes during the FY 2022:

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				

NIPAC ⁶	Mr Aleksandar Mašković ⁷	01/07/2022	8/12/2022	07/07/2022	07/07/2022	Ms Milena Žižić	20/1/2023	4-year period	T	N/A	03/02/2023	03/02/2023	M
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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										
NAO	Ms Mila Kasalica ⁸	28/04/2022	8/12/2022	07/07/2022	07/07/2022	Ms Ana Raičević	20/1/2023	4-year period	T	N/A	03/02/2023	03/02/2023	H

DMS

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	

⁶ Given the fact that NAO and NIPAC positions were vacant for a short period (from 7th December 2022 to 20th January 2023), these functions were performed by Mr Bojan Vujović (Deputy NIPAC) and Ms Anja Amidžić (Deputy NAO)

⁷ Previous NIPAC Ms Zorka Kordić has been resigned on the Government session held on July 1st 2022

⁸ Previous NAO Mr Janko Odović has been resigned on the Government session held on April 28th 2022

Head of the DMS/Deputy NAO	Ms Ivana Maksimovic	01/10/2021	07/3/2022	No information	No information	Ms Anja Amidžić	20/04/2022	5-year period	T	N/A	27/04/2022	27/04/2022	L
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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				From	Until					
				AA	EC						AA	EC	
Head of the MA	Mr Darko Konjević	27/02/2020	11/02/2021	15/2/2021	15/2/2021	Ms Andrijana Rakocevic ⁹	16/09/2021 as Acting and from 2/02/2022 formally appointed as Director General	--	T (5-year period)	--	01/10/2021	01/10/2021	M
											15/02/2022	15/02/2022 ¹⁰	

IA

⁹ After resignation of the Mr Konjevic, according to the Substitution plan, Head of the MA was substituted by the Head of Department for Monitoring, Evaluation and Reporting, Mr Enis Gjokaj. After approval of the new Rulebook and accordingly preparing new Decisions, Head of MA was substituted by the Head of the Department for Monitoring and Evaluation, Mr Zoran Iric.

¹⁰ Within AMD 2021

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointm ent of the new person: permanen t (P) or temporary (T)	Date of the approv al 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
Head of the IA	Ms Danka Perović	28/11/2019	16/09/2021	01/10/2021	01/10/2021	Mr Vladislav Bojovic ¹¹	16/09/2021	6 months as Acting Director General	T	N/A	01/10/2021	01/10/2021	H		

¹¹ At the Government session held on September 13th 2022, Mr Vladislav Bojović has been reappointed as the Acting Director General within Directorate for Payments

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”, the AA will use possibility to inform about exceptions in this part of report.

During FY 2022, the NAO approved one exception for DMS regarding procedures related to **recoveries of funds**. It is adopted a version 2.1. of Manual of procedures regarding Financial management. Changes refer to chapter 6 Recovery of funds. Therefore, in the subchapter 6.1. *Recovery of funds from recipients* is added that recovery of funds by the contractor/grant beneficiary may be done not only to the respective MF-NF IPA account, opened in the Central bank for IPARD programme, but also to the state budget or depending on the source of financing recovery may be done separately as well, i.e. EU part of funds to be recovered to the relevant MF-NF IPA account and national co-financing to be recovered directly to the state budget. Furthermore, in the above-mentioned subchapter is added: “*If the IA fails in recovering the funds from recipient, it IA shall initiate judicial process for recovery of funds in accordance with national procedure*”. Certain changes were made in the subchapter 6.2. *Recovery of funds to the EC* referred to the explanation of the process after receiving the Recovery order/Debit note from EC. In comparison with the previous manual, the new version provides clearer explanations of this process.

Besides this exception, during financial year 2022 seven exceptions, which were initiated by the staff of IPARD Agency, were approved by the NAO.

Exceptions initiated by the IA:

1. Modifying procedures in regard to change amount of a minimum salary¹²

The reason for an exception request is the harmonization with the new legal norms. Namely, the changes are proposed in word and excel versions of business plan in relation with increasement of minimum salary from 250 EUR to 450 EUR as well as the calculated coefficients for converting net to gross income. Additionally, increase of the minimum wage is the reason for reduction of the discount rate from 7% to 5% in Table 10 of Business plan which presents Net Present Value (DP-DPAP-00-03a and DP-DPAP-00-03b¹³).

¹² Approved by the Deputy NAO on 28th January 2022

¹³ Business plan below 50 000 and business plan above 50 000

2. Modifying procedures in regard to determination of reasonableness of prices¹⁴

The Referent Price Database is a system that serves to check reasonableness of all prices submitted as part of the Request for granting support for Measure 1 - Investments in the physical assets of agricultural holdings. In order to determine a reference price, there must at least 3 comparable prices. The more prices exist for one item, the greater is the possibility to determine a real and adequate price. In case there are no 3 comparable prices, the database will display these prices without data for the referent price. In addition to the Referent price Database, the Evaluation Committee has been accredited as a price verification system for all items which do not exist in RPD and which are related to the procurement of equipment and mechanisation, as well as construction works. On November 10th 2021 MAFW published the Third Public Call for grants for Financial support for Measure 1. The Requests were submitted within the period from November 10th 2021 to December 27th. In accordance with applicable procedures of the DTEA - Manual for RPD, it is prescribed: "When the public call for Granting the financial support is opened, the reference price database calculates the reference price for all verified items with a valid price expiration date and which are registered until the date of publication of the current public call". In the meantime, pandemic CoVid-19 reflected significantly to a sudden jump in prices of equipment and prices which are currently established as referent prices within RPD. Therefore, prices from current RDP were not real and adequate anymore.

3. Modifying procedures in regard to recovery procedure and debt management¹⁵

The reason of initiating this exception by the IA is the situation which occurred during process of deciding on the Request for payment for the recipient with contract reference 321-2113/18-56 (payment request reference 321-2113/18-59)¹⁶. Namely, the IA for the first time had to approve the recipient's request for payment of funds and the same is in the period from the moment of signing the contract to the moment of deciding on the request for payment of funds recorded in the Debtors Ledger. When the recipient signed the contract on the allocation of funds, he was not recorded in the Debtors Ledger, but in the meantime, when deciding on the request for payment, he was recorded in the Debtors Ledger. In accordance with the applicable procedures at that time DAP could approve the payment and made authorization table decision for payment without checking whether the recipient is on the list of debtors. When DAP forwards these documents to the DAB and DEP, DAB checks whether the recipient is registered in the Debtors Ledger, and if so, fills in document DP-DAB-00-21 - Information on debt deduction. On the basis of this document DEP makes Decision on debt deduction where is entered the amount of debt as well as the final amount that will be paid to the recipient when his debt is deducted. However, according to national legislation (the Article 18 of the LAP¹⁷-Official Gazette of Montenegro No. 56/14, 20/15, 40 (2016 and 37/17)) the IA as a public body cannot issue two decisions on one request. Therefore, it is proposed that DAP, before deciding on the payment of funds and Authorization Letter, send an inquiry to the DAB, whether the recipient is registered in the Debtors Ledger. If so, DAB sends information on the amount of debt, and DAP enters that amount in the decision on the payment of funds, as well as the final amount to

¹⁴ Approved by the Deputy NAO on 7th February 2022

¹⁵ Approved by NAO on 21st February 2022

¹⁶ List of payments for year 2022 for IPARD II programme in Montenegro for 1st quarter (01.01.2022-31.03.2022)

¹⁷ Law of administrative procedure

be paid to the recipient when his debt is deducted. After that, the procedure of payment of funds is carried out.

4. Modifying procedures in regard to work of Evaluation Committee¹⁸

As it was above-mentioned in 2nd exception the Referent Price Database is a system that serves to check reasonableness of all prices submitted as part of the Request for granting support for Measure 1 - Investments in the physical assets of agricultural holdings. In order to determine a reference price, there must be at least comparable prices. In case there are no 3 comparable prices the Evaluation Committee has been accredited as a price verification system for all items which do not exist in the Referent price database and which are related to the procurement of equipment and mechanisation, as well as construction works (reasonableness of this prices is determined exclusively by the evaluation committee). On 14th March 2022 Ministry of Agriculture, Forestry and Water Management (IA) published the Fourth Public Call for Grants for Financial Support for Measure 1 "Investments in Physical Capital of Agricultural Holding" of the Agriculture and Rural Areas. The Requests for Granting the financial Support were submitted within period from 14th March 2022 until 28th April 2022. In accordance with the applicable procedures of the DTEA - Manual for the Reference Price Database, it is prescribed: "When the Public Call for Granting the Financial Support is opened, the reference price database calculates the reference price for all verified items with a valid price expiration date (maximum 24 months from the date of issuance of the price) and which are registered until the date of publication of the current Public Call". This would mean that calculation of reference prices includes all items entered by March 14th 2022. RPD for this call has been updated according to the offers issued for the previous call - Third Public Call for Measure 1 as well as based on market research conducted by the Evaluation Committees (offers issued 9-10 months ago and research done a year ago). However, the calculation of prices also includes active prices from the Second Public call for Measure 1. In the meantime, pandemic CoVid 19 reflected significantly to a sudden jump in prices of equipment and prices which are currently established as referent prices within RPD. Therefore, some prices from the current RPD still are not real and adequate which implies additional explanation by Evaluation Committee for items which are higher than 15% from referent price.

5. Modifying procedures in regard to work of DAP, DPAP, DTEA, DOCSRMD¹⁹

This exception consists of 7 parts.

First part is related to the documents submitted by applicants and which in accordance with procedures should not be older than 30 days. In order to accelerate the payment process the IA requested exception that relevant documents should not be older than 3 months.

Second part regards to administrative procedures and documents which should have been submitted by applicants which proves that applicant is not under criminal proceedings nor in the process of liquidation. Namely, it is agreed with representatives of Ministry of Justice to send to DAP the documents regarding that applicant is not under criminal proceedings on request ex officio. As regards documents related to

¹⁸ Approved by the Deputy NAO July 29th 2022

¹⁹ Approved by the Deputy NAO on 29th July 2022

information about liquidation process the same can be checked by DAP on the website of the Central Register of Business Entities (CRBE) which is regularly updated. Also, from applicants would not be requested anymore the documents regarding whether the applicants are registered in relevant register of processing (olive and wine sector), instead data will be requested from colleagues from MAFWM by DAP.

Third part of exception regards to removing question about comparing construction book and invoice because final expert supervision report confirms it, but DAP will ask from the recipient to provide construction book in order to give it to the on the spot Control. For authorization Table DAP needs just an invoice not construction book. For the hidden works DOSCRDM will note in DP-DOSCRDM-02 Checklist for on-the-spot verification - before payment that the works are checked in construction book.

Forth part of exception regarding to the table *Register of DAP*. Given the fact that Register of DAP comprises the data of contracted recipients which implies contracted cases, cases in procedure and paid cases, all shown in one table, the IA through this exception requested adding a new table *Register of contracted projects* in order to facilitate process of checking deadlines before sending letter for submitting payment request.

Fifth part refers to the Guideline for work of Evaluation Committee where is stated that Head of IA shall nominate responsible advisor who should check the work of the Committee. Considering the fact that Evaluation Committee is now part of the DTEA the Head of Sector for evaluation and authorization of projects should check the work of the Committee instead of an advisor appointed by Director of IA.

Sixth part of exception regards to changes in the part of necessary documentation that is an integral part of the request for support and checklists of completeness and eligibility for m1, m3 and m7, and refers to *“the verification of the reliability of the applicant, with reference to any third-party information, such as court decisions, initiated criminal procedures by the public prosecutor, initiated bankruptcy procedure” (Article 11 (2) g of SA)*. However, the IA initiated removing these documents from list of necessary documentation because the mentioned documents will be obtained officially.

Seventh part of exception refers to Article 8 point 23 of Contract which states that in case the recipient decided for an advanced payment of support in the amount up to 50% of the approved support he is obliged to submit a Request for advanced payment to the directorate with 60 days from the day of signing the contract. However, from past experience, the deadline of 60 days for providing a bank guarantee is short especially considering current situation with market prices and CoVid 19 and it is extended to 100 days.

6. Modifying procedures in regard to work of DOSC²⁰

This exception consists of three parts.

²⁰ Approved by the Deputy NAO on 29th July 2022

First part regards to changing annex DP-DOSCRDM-00-01 as consequence of introduced novelties which implies that during the contract implementation and duration period the recipient can submit payment request at the end of the finalization of the full investment or interim payment request after the finalization of the part of the investment. The payment can be executed in a maximum of three installments which will be the recipient's choice stipulated in the contract. Current version of the annex DP-DOSCRDM-00-01 Register of controlled case files is treating only applications with one payment request according to the former practice and former procedures. Currently, applicants have possibilities to split their investment of three parts and submit separate payment request for each part of the investment after its finalization.

Second part of exception regards to the removing Annex DP-DOSCRDM-02-04 from procedures. Namely, during period of implementation of IPARD Programme the IA has developed mutual communication through share folder. On special location in that folder controller from DOSC has possibility to add folder with all pictures of one file.

Third part of exception regards to a case supervision on a sample of at least 3% at the end of each Public call. This leads to situations, that if the supervision reveals some inequality in approach, it is not possible to react on time. The completions of a Public call can be anywhere from a few months, if the contracting process is involved, to the several years, if it is a matter of controlling payment requests. This is a long period and if there are any recommendations that would be revealed during the increased control, the goal for them is to be clarified between head the Head of SOSC and Head of DOSCRDM as soon as possible. With this in mind the plan for such controls is to be performed on a monthly basis at random, as assessed by the head of SOSC.

7. VAT procedures for applicants and definition of young farmer in accordance with SA²¹

The first part of exception is related to the exclusion of IPARD recipients from paying the VAT and amendments of articles 5, 6, 7 and 8 of the Contract accordingly.

Second part of exception is regarding the definition of young farmer according to the amendments in Sectoral Agreement and changes in the list of activities. In accordance with the Agreements on Amendments to the SA ***“young former means a farmer younger than 40 years of age at the time of application submission who has adequate knowledge and skills”*** instead of *“under 40 years of age at the time when the decision to grant support is taken”* as it was defined in previous version of SA. Also, there was a change in the list of activities regarding the information that the list must contain and in accordance with it, it is necessary to amend the DP-DPAP-00 Manual in section 5.2 Award principles.

All above listed procedural modifications and exceptions are recorded and approved at the appropriate level and aim to enhance absorption of available funds for support, reduce the very high risk of de-commitment and accordingly to contribute to successful implementation of IPARD tasks.

²¹ Approved by Deputy NAO on 26th October 2022

3. CHANGES TO THE AUDIT STRATEGY

3.1 Details of any changes that have been made to the audit strategy or are proposed and of the reasons for them. In particular, indicate any change to the sampling method used for the audit of operations (see Section 5 below)

The AA confirms that the audit work was carried out as planned in the Audit Strategy.

However, besides ICFRs presented in the point 5.3 of the Audit Strategy 2022-2024, which were obtained by risk assessment, in system audit for FY 2022, (performed from June 2022 to December 2022.) the AA also included the ICFR 5(a) On-going and specific monitoring in the IPARD Agency. In the Annex – Risk assessment / the overall risk assessment per body, ICFR criterion 5(a) regarding the IA, was scored with medium risk.

The reason for the subsequent inclusion of criterion 5(a) in the scope of system audit is that technical error was made when filling indicative schedule of audit assignments for current year (5.3 of the Audit Strategy) which was noticed when planning audit, by comparing audit plan and Audit Strategy.

The Audit Strategy includes an audit plan which contains criterion 5 (a) On-going and specific monitoring in the IPARD Agency.

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

All changes are presented in point 3.1.

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. Due to the current absence of three auditors in the Department for audit of the program of agriculture and rural development, the Deputy Auditor General engaged auditor from the Department for audit of the program of regional and territorial cooperation for the needs of the system audit. The list of the AA team members is presented in the table below.

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.

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	Marko Tomčić	Authorized Auditor / Coordinator of Department for audit of the program of agricultural and rural development	4 years and 11 months	4 years and 11 months	P	Certified auditor/ State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report ICFR 1(b) ICFR 1(c) ICFR 1(d) ICFR 3(a)(i) ICFR 3(a)(ii) ICFR 3(a)(iii) ICFR 3(a)(iv) ICFR 3(a)(v) ICFR 3(a)(vi) ICFR 3(a)(vii) ICFR 3(a)(ix) ICFR 3(a)(x) ICFR 3(a)(xiii) ICFR 3(b) ICFR 3(c) ICFR 5(a)
	Jasna Ilić	Authorized Auditor / Department for audit of the program of regional and territorial cooperation	6 years and 3 months	6 years and 3 months	P	Certified auditor/ State auditor	ICFR 1(c) ICFR 1(d) ICFR 1(e) ICFR 3(a)(i) ICFR 3(a)(ii) ICFR 3(a)(iii) ICFR 3(a)(iv) ICFR 3(a)(v) ICFR 3(a)(vi) ICFR 3(a)(ix) ICFR 3(a)(xiii)
	Luka Miranović	Junior Auditor	1 year and 10 months	1 year and 10 months	P	N/A	ICFR 3(a)(i) ICFR 3(a)(ii) ICFR 3(a)(iii) ICFR 3(a)(iv) ICFR 3(a)(v) ICFR 3(a)(vi) ICFR 3(a)(ix) ICFR 3(a)(xi)

							<i>ICFR 3(a)(xiii)</i> <i>ICFR 3(c)</i> <i>ICFR 4(a)</i> <i>ICFR 4(b)</i> <i>ICFR 4(c)</i>
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4.2 Summary table of the audits carried out

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2022-31.12.2022 i.e. FY 2022	Programme for Agriculture and Rural development of Montenegro - IPARD II No CCI: 2014ME06I4NP001	Audit Authority of Montenegro	Directorate for Management Structure (NFD and NAOSO), Operating Structure (IA)	June – December 2022	System Audit encompassed DMS (National Fund and NAO Support Office) and Operating structure (IPARD Agency) and the following audit areas were examined: • Establishment of structures, reporting lines, and authorities and responsibilities (ICFR 1c) • Staff planning, recruitment, retention, training and appraisal (ICFR 1d) • Accountability for allocated tasks and responsibilities (ICFR 1e) • Selection and development of control activities (ICFR 3a) • Security control activities (ICFR 3b) • Policies and procedures related to control activities (ICFR 3c) • Information to support functioning of internal controls (ICFR 4a) • Internal communication (ICFR 4b) • External communication (ICFR 4c) • Internal audit (ICFR 5a)	1. Non-compliance of Manual of procedures of DAP with Decree for implementation of measures regarding deadline for recovery of funds 2. Insufficiently defined procedures regarding underpayments 3. Non-fulfilment of DIA's Annual Audit Plan	/	/	1.Open 2.Open 3.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 2022, 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, 2019, 2020 and 2021. From the beginning of IPARD II Programme, the IPARD Agency has published 10 public calls of the IPARD II Programme 2014-2020:

- four Calls for applications for measure 1,
- five Calls for submitting applications for allocation of funds for Measure 3,
- one Call for application for Measure 7(sub-measure 7.1).

When it comes to the compliance testing, the AA implements approach of dual-testing purpose for payments covering Q1, Q2 and Q3. The AA firstly selected the substantive testing sample by a non-biased method (details presented in point 5.2) which covered payments declared in three quarters (D1 – Q1, D2 – Q2 and D1 – Q3) including 10 operational transactions in total. All 10 transactions were suitable and were subject of compliance testing. Out of 10 transactions, 8 refers to Measure 1 (7 final payments and 1 interim payment) and 2 to Measure 3 (final payments) and thus AA has covered a variety of transactions, measures and procedures, to allow adequate assessment of the system.

During compliance testing, the AA did not identify any financial error which would be considered as random error and consequently extrapolated.

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 the 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 followed.

The outcome of the compliance testing is summarized in the Final report of audit of operation related to the Q3 of FY 2022.

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 2022-2024 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.

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 and advances 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 the AA in DMS and IPARD Agency, 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 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/ MAFWM 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;
- 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 whether numbers and quality of staff are in place at all levels to reach the objectives;
- The AA verified whether information and communication 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 as well as whether information is obtained from all relevant sources including both internal and external sources;
- The AA verified whether on-going and specific monitoring is developed and performed to ascertain that the components of internal control are present and functioning at all levels.

For the purpose of compliance testing of operational transactions, the AA applied dual testing purpose. Sample included 10 payments from the first three quarters of the FY 2022, in total amount of 697.100,65 € (EU part). Out of 10 transactions, 8 refers to Measure 1 (7 final payments and 1 interim payment) and

2 to Measure 3 (final payments) and thus AA has covered a variety of transactions, measures and procedures, to allow adequate assessment of the system. During compliance testing, the AA identified deficiency which refers to the reasonableness of prices, performed by the evaluation committee. Taking into account that deficiency was identified within project from second public call of M3, when the work of the evaluation committee was not at a satisfactory level, and fact that same deficiencies are reported through AAAR 2021 (ref. 5.8.1, finding No 3), the AA decide to follow-up implementation of recommendation regarding mentioned finding through this report in section 7.1.

List of the transactions reviewed for the compliance testing of the operational transactions is presented in Annex 4 to this Report, as well as in the table below.

	List of samples reviewed for compliance testing of operational transactions											
Payment N°	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			
Payment N° 1	09-908/20-9732/21	20-02-1-0052	1	Y	Y	Y	Y	N/A	N/A	19.211,26		Y
Payment N° 2	09-908/20-4799/15	20-02-1-0005	1	Y	Y	Y	Y	N/A	N/A	6.950,22		Y
Payment N° 3	321-2099/18-37	18-01-3-0014	3	Y	Y	Y	Y	N/A	N/A	37.213,68	27,41*	Y
Payment N° 4	09-908/20-10658/38	20-02-1-0100	1	Y	Y	Y	Y	N/A	N/A	9.915,25		Y
Payment N° 5	09-908/20-10190/27	20-02-1-0036	1	Y	Y	Y	Y	N/A	N/A	8.354,91		Y
Payment N° 6	321-4433/19-29	19-02-3-0018	3	Y	Y	Y	Y	N/A	N/A	398.236,44	180,25*	Y
Payment N° 7	09-908/20-10721/13	20-02-1-0153	1	Y	Y	Y	Y	N/A	N/A	80.270,96		Y
Payment N° 8	321-1216/18-37	18-01-1-0136	1	Y	Y	Y	Y	Y	N/A	86.542,13		Y
Payment N° 9	09-908/20-10053/31	20-02-1-0031	1	Y	Y	Y	Y	N/A	N/A	9.214,78		Y
Payment N° 10	09-908/20-10635/26	20-02-1-0119	1	Y	Y	Y	Y	N/A	N/A	41.191,02		Y
* Error detected as result of dual testing and audit of operation, not result of the system audit												

* Error detected as result of dual testing and audit of operation, not result of the system audit

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	10	Section 5.8.1
On-the-spot controls	10	Section 5.8.1
Payment procedures	10	Section 5.8.1
Accounting procedures	10	There were no findings
Advances/securities	1	There were no findings
Procedures for debts	n/a	There were no findings

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. The AA considers that there is no error of systematic nature. The AA identified certain deficiencies within procedures regarding underpayments and recovery of funds, as well as non-fulfilment of DIA’s Annual Audit Plan. Mentioned deficiencies are presented in the findings below. Also, the AA identified deficiencies which are related to the process of assessing of reasonableness of costs and significant delay in work of evaluation committee which impact on overall effectiveness of implementation of IPARD Programme, as it is stated in previous AAAR.

Considering that IA declared expenditures regarding 48 recipients in FY 2021 and that during FY 2022 they executed 97 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. The AA's sample covered 20 transactions which were tested within substantive testing and 3 deficiencies were identified, but none of them indicate that errors have systematic nature. Overall conclusion indicates proper functioning of controls.

In addition, the AA strongly recommends to the 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 recipients and authorization of payments considering fact that cca 22 million EUR must be spent by the end of FY 2023.

Assessment for the IPARD Agency:

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

Findings:

1) *Insufficiently defined procedures regarding underpayments*

ICFR 3 (c) Policies and procedures related to control activities that written policies and procedures exist establishing what is expected at all levels and specifying detailed actions.

Level of priority: Intermediate

Body/-ies concerned by the finding: IPARD Agency

According to the Annex 2 - Error evaluation of the DG AGRI's Guideline No 2, underpayments are considered as formal errors. Underpayment as formal error presents failure of controls without financial effect (the payment, debt/irregularity and/or the balance of the IPARD Euro account is actually correct as to its amount).

During testing procedures, the AA auditors identified insufficiently defined procedures regarding underpayments within the Manual of procedures of Department for Authorization of Payments (DAP) version 2.3. Namely, chapter 5.4 *Preparing Authorization letter and Decision for payment* prescribes that DAP advisors prepare new Authorization letter and Decision for payment when underpayment is identified in order to pay correct amount to the Recipient but without prescribing necessary analysis how underpayment occurred, i.e. which control has failed, analysis of reasons why it happened as well as the actions which should be taken after identification of controls failure.

Furthermore, the AA auditors determined that manual does not clearly prescribe from which sources IA should pay underpaid funds considering fact that underpayment is a formal error and does not have financial impact which means that underpaid amount should not be paid from the EU funds.

Recommendation:

The AA recommends the following:

- IA should more precisely describe procedures regarding underpayments, i.e. IA should prescribe steps in order to target failed controls, prescribe necessary analysis as well as the actions to ensure that such failures do not occur in the future.

- IA should clearly define whether they obliged to pay underpaid amount to the recipients and accordingly define source of financing, considering the fact that underpayments are formal errors and they can not be paid from the EU funds.

AA follow up status: Open

2) Non-compliance of Manual of procedures of DAP with Decree for implementation of measures regarding deadline for recovery of funds

ICFR 3 (c) Policies and procedures related to control activities that written policies and procedures exist establishing what is expected at all levels and specifying detailed actions.

Level of priority: Major

Body/-ies concerned by the finding: IPARD Agency

During system audit, the AA auditors identified non-compliance of the MoP of Department for Authorization of Payments (DAP) and annex “DP-DAP-00-24 Decision for recovery of funds” with the “Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union” (hereinafter referred to as Decree) regarding deadline for recovery of funds as well as starting date of calculating penalty interest.

Namely, in Article 47 of the Decree it is stated that the Recipient is obliged to recover funds within 30 days from receipt of the Decision for recovery of funds and if the recipient fails to recover the amount stipulated in the Decision for recovery of funds within 30 days of its receipt, the IA shall calculate penalty interest counting from the day of the expiry until the day of recovery of the funds, while MoP of DAP, version 2.3 prescribes that the Recipient is obliged to recover funds within 15 days from receipt of the Decision for recovery of funds and if the Recipient fails to recover the amount stipulated in Decision within 15 days of its receipt, the IA shall calculate penalty interest counting from day of the expiry until the day of recovery of the funds.

On the other hand, point 2 of the annex “DP-DAP-00-24 Decision for recovery of funds” correctly prescribes deadline (30 days) for recovering of funds, while point 3 states that IA shall calculate penalty interest counting from day of the expiry until the day of recovery of the funds if the Recipient fails to recover the amount stipulated in the Decision within 15 days of its receipt, which is not in accordance with Decree.

Recommendation:

The AA recommends the following:

- IPARD Agency should update and harmonize relevant procedures in accordance with Decree regarding deadline for recovering of funds as well as starting date of calculating penalty interest, i.e. instead deadline of 15 days it should be prescribed deadline of 30 days.

AA follow up status: Open

3) Non- fulfilment of DIA's Annual Audit Plan

ICFR 5 (a) On-going and specific monitoring should ensure that regular specific monitoring is carried out by internal audit function to provide higher management with independent review of the subordinate systems.

Level of priority: Intermediate

Body/-ies concerned by the finding: IPARD Agency

According to the Annual Audit Plan for 2022, Department for internal audit (hereinafter DIA) planned to conduct two audits in 2022 in the IPARD Agency, i.e. "Assurance on the compliance of the procedures for the implementation of the measures of the IPARD II program - Technical assistance with the requirements prescribed by the Sectoral Agreement and the IPARD II program" and "Assurance about the effectiveness of the implementation of support measures of the IPARD II program".

During system audit, the AA auditors determined that DIA performed one of two audits. The audit "Assurance about the effectiveness of the implementation of support measures of the IPARD II program" was not carried out in accordance with Annual Audit Plan. Namely, Announcement Letter was submitted in April 2022 as well as risk assessment, but audit was not finished by the end of second quarter of 2022 as it was stated in Annual Audit Plan as well as Plan of conducting the audit.

Also, having insight into training register of DIA employees, it was noticed that despite certain number of trainings that were conducted in 2022, there is not enough trainings regarding auditing IPARD funds, which is the task of internal auditors prescribed by Rulebook, especially for new employee, who is involved in the audit of IPARD funds in July 2022.

Recommendation:

Taking into consideration importance and aim of activities carried out by Internal Audit, the AA recommends performing audits in line with Annual Audit Plan and internationally accepted auditing standards, in order to add value and improve organization's operations. Also, the AA recommends more trainings regarding auditing IPARD funds in order to ensure quality system of internal controls and its adequate functioning.

AA follow up status: Open

Assessment:

Considering findings described, the AA concluded that all risks are addressed to some extent by controls which may not always operate as intended and consequently the 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) Ineligible expenditure related to Recipient under application ID No. 18-01-3-0014 (ref 4.1.1. of final report of audit of operations for Q1 and Q2)
- 2) Ineligible expenditure related to Recipient under application ID No. 19-02-3-0018 (ref 4.1.2. of final report of audit of operations for Q1 and Q2)
- 3) Ineligible expenditure related to Recipient under application ID No. 19-02-3-0030 (ref 4.1.1. of final report of audit of operations for Q4)

Assessment:

Considering findings described in the section 5.8.1, the AA concluded that all risks are addressed to some extent by controls which may not always operate as intended and consequently the 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, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this ICFR as “Works well” with the score 3.65.

- **Control activities: Accounting**

Findings:

There were no findings.

Assessment:

Considering that there wasn't any finding, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this ICFR as “Works well” with the score 3.65.

- **Control activities: Advances and securities**

Findings:

There were no findings.

Assessment:

Considering that there wasn't any finding, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this ICFR as “Works well” with the score 3.65.

- **Control activities: Debts management**

Findings:

Finding is presented in section 6.3 of this Report as follows:

- 1) Inadequate classification and treatment of overpayment

Assessment:

Considering finding described in the section 6.3, as well as follow up on part related to the debt management and irregularities, the AA concluded that all risks are adequately 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 the AA assessed this ICFR as “Works” with the score 2,90.

Assessment for the **NAOSO**:

- **Implementing function : Provide assurance on the effective functioning of the internal control system**

Findings:

There were no findings.

Assessment:

Even though there wasn't any finding, based on professional judgment, the AA concluded that all risks are adequately 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 3.28.

Assessment for the **NFD**:

- **Control activities: Managing functions – Management of IPA II accounts and financial operations**

Findings:

There were no findings.

Assessment:

Even though there wasn't any finding, based on professional judgment, the AA concluded that all risks are adequately 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 3.40.

- **Control activities: Paying functions – Authorisation and control of payments**

Findings:

There were no findings.

Assessment:

Even though there wasn't any finding, based on professional judgment, the AA concluded that all risks are adequately 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 3.40.

- **Control activities: Paying functions – Accounting for commitment and payment**

Findings:

There were no findings.

Assessment:

Even though there wasn't any finding, based on professional judgment, the AA concluded that all risks are adequately 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 3.40.

- **Control activities: Paying functions – Debt management**

Findings:

There were no findings.

Assessment:

Even though there wasn't any finding, based on professional judgment, the AA concluded that all risks are adequately 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 3.40.

- **Control activities: Paying functions – Treasury**

Findings:

There were no findings.

Assessment:

Even though there wasn't any finding, based on professional judgment, the AA concluded that all risks are adequately 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 3.40.

Assessment for the **Managing Authority**:

Findings:

There were no findings.

Assessment:

Considering that there wasn't any finding, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this ICFR as "Works well" with the score 3.66.

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.

Also, there were no findings with financial impact as a result of system audit.

Findings which are classified as findings with **financial impact**, in total amount of 4.285,91€, are presented in section 5.8.1, but these findings weren't result of system audit.

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, the 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. The AA assessed ICS for FY 2021 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 matrices²²:

IPARD Agency

MATRIX - Assessment of the ICF (IPARD AGENCY) - IN CASE OF NO DELEGATED BODIES AND YES ADVANCES																						
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	
Operations	Administrative controls	3	0,45	2	0,10			3	0,15	2	1,00	2	0,20	2	0,10	3	0,15	2	0,10	20%	2,00	0,40
	On-the-spot controls																					
	Validation and authorization	3	0,45	3	0,15			3	0,15	2	1,00	2	0,20	3	0,15	3	0,15	2	0,10	20%	2,00	0,40
Payments	Execution of payments	4	0,6	4	0,2			3	0,15	4	2	2	0,2	4	0,2	3	0,15	3	0,15	15%	3,65	0,55
	Accounting	4	0,6	4	0,2			3	0,15	4	2	2	0,2	4	0,2	3	0,15	3	0,15	15%	3,65	0,55
	Advances and securities	4	0,6	4	0,2			3	0,15	4	2	2	0,2	4	0,2	3	0,15	3	0,15	10%	3,65	0,37
	Debts management	3	0,45	4	0,2			3	0,15	3	1,5	2	0,2	3	0,15	2	0,1	3	0,15	20%	2,90	0,58
General conclusion												2,84										
Assessment of ICF												works (medium 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)																						

²² Presented in Annex 1 to this Report

Overall conclusion on the ICS in IPARD Agency, based on the results of system audit, is Works (medium impact) with the score of 2.84.

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	3	2	3	4
Paying functions	Authorisation and control of payments	4	3	n/a	4	4	2	4	4
	Accounting for commitment and payment	4	3		3	3	2	4	4
	Debt management	4	3	n/a	3	4	2	4	3
	Treasury	4	4	n/a	4	4	2	4	4
Overall average								3,4	

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 National Fund, based on the results of system audit, is Works well (minor impact) with the score of 3.40.

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 the internal control system	4	4	n/a	3	4	2	3	3
Overall average								3,285714286	

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 NAO Support Office, based on the results of system audit, is Works (medium impact) with the score of 3.28.

Managing Authority

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	3	n/a	3

Overall average	3,666666667
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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 Managing Authority, based on the results of system audit, is Works well (minor impact) with the score of 3.66.

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	Marko Tomčić	Authorized Auditor / Coordinator of Department for audit of the program of agricultural and rural development	4 years and 11 months	4 years and 11 months	P	Certified auditor/ State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Maja Klikovac	Authorized Auditor	2 years and 5 months	2 years and 5 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Jasna Ilić	Authorized Auditor / Department for audit of the program of regional and territorial cooperation	6 years and 3 months	6 years and 3 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Marija Perović	Senior Auditor	6 years and 3 months	6 years and 3 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Luka Miranović	Junior Auditor	1 year and 10 months	1 year and 10 months	P	N/A	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, the AA applied appropriate sampling methodology in line with the requirements prescribed in the Guideline 2 “Audit strategy”.

Overall population, identified by the AA from which the substantive testing sample were drawn, contains all final and interim payments made by IPARD Agency to the recipients, included in the annual declaration as gross expenditure for the financial year 2022. There were 84 final payments and 9 interim payments from IPARD Agency to recipients, in total gross amount of 5.556.548,38€ (EU part). Considering number of payments and requirements prescribed in Guideline 2, for substantive testing of operational transactions, the 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, the 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 2022, the second sample was drawn from Declaration of third quarter (D1 for Q3) and third sample was drawn at the beginning of the year 2023 from the Declaration of the last, fourth quarter (D1 for Q4).

For calculating the sample, the 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 93 final and interim payments as well as overall assessment of ICS of the IPARD Agency assessed as “Works” and the AA determined that the minimum sample size should be 18,6, but due to rounding up in three sample, the AA came to 20 transactions. The AA decided to treat all final and interim payments in the year under all measures as one single population and not to use stratified approach. In addition, the 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 2022, total of 30 final payments and 3 interim payments in amount of 2.522.175,32 €. The AA, using IDEA software, randomly chose 7 payments (6 final and 1 interim) in amount of 560.152,72 €. Total number of sampled transactions presents 21,21 % of population while amount of sampled transactions presents 22,20 % of declared expenditures. Sample is presented below:

No.	Application ID	Contract reference	Transaction type	Declared expenditure			
				Measure	Quarter	Sum of declared expenditures (EU part)	National part
	1	2		3	4	5	
1	20-02-1-0052	09-908/20-9732/21	Final	1	Q1	19.211,26 €	6.403,76 €
2	20-02-1-0005	09-908/20-4799/15	Final	1	Q1	6.950,22 €	2.316,74 €
3	18-01-3-0014	321-2099/18-37	Final	3	Q2	37.213,68 €	12.404,56 €
4	20-02-1-0100	09-908/20-10658/38	Interim	1	Q2	9.915,25 €	3.305,08 €
5	20-02-1-0036	09-908/20-10190/27	Final	1	Q2	8.354,91 €	2.784,97 €
6	19-02-3-0018	321-4433/19-29	Final	3	Q2	398.236,44 €	132.745,48 €
7	20-02-1-0153	09-908/20-10721/13	Final	1	Q2	80.270,96 €	26.756,99 €
Total						560.152,72 €	186.717,58 €

Second sample was drawn from population which contains expenditures declared (list of payments) in Q3 of FY 2022, total of 13 final payments in amount of 694.041,47 €. The AA, using IDEA software, randomly chose 3 payments in amount of 136.947,93 €. Total number of sampled transactions presents 23,07 % of population while amount of sampled transactions presents 19,73 % of declared expenditures. Sample is presented below:

No.	Application ID	Contract reference	Transaction type	Declared expenditure			
				Measure	Quarter	Sum of declared expenditures (EU part)	National part
	1	2	3	4	5	6	7
1	18-01-1-0136	321-1216/18-37	Final	1	Q3	86.542,13 €	28.847,38 €
2	20-02-1-0031	09-908/20-10053/31	Final	1	Q3	9.214,78 €	3.071,59 €
3	20-02-1-0119	09-908/20-10635/26	Final	1	Q3	41.191,02 €	13.730,74 €
Total						136.947,93 €	45.649,71 €

Third sample was drawn from population which contains expenditures declared (list of payments) in Q4 of FY 2022, total of 47 payments (41 final and 6 interim) in amount of 2.340.331,59 €. The AA, using IDEA software, randomly chose 10 payments (9 final and 1 interim) in amount of 719.226,69 €. Total number of sampled transactions presents 21,27 % of population while amount of sampled transactions presents 30,73 % of declared expenditures. Sample is presented below:

No.	Application ID	Contract reference	Transaction type	Declared expenditure			
				Measure	Quarter	Sum of declared expenditures (EU part)	National part
	1	2	3	4	5	6	7
1	20-02-1-0001	09-307/20-3863/31	Final	1	Q4	11.073,30 €	3.691,10 €
2	19-02-3-0030	321-4462/19-52	Final	3	Q4	479.141,13 €	159.713,72 €
3	18-01-1-0318	321-1454/18-52	Final	1	Q4	28.674,16 €	9.558,05 €
4	20-02-1-0050	09-908/20-10248/23	Final	1	Q4	7.263,26 €	2.421,09 €
5	21-03-1-0050	09-908/22-61/13	Final	1	Q4	20.575,24 €	6.858,42 €

6	20-02-1-0014	09-908/20-6455/24	Final	1	Q4	5.739,71 €	1.913,24 €
7	22-04-3-0019	09-908/22-3223/21	Final	3	Q4	78.163,12 €	26.054,38 €
8	20-02-1-0177	09-908/20-10761/43	Interim	1	Q4	36.877,41 €	12.292,47 €
9	21-03-1-0018	09-908/22-21/12	Final	1	Q4	22.605,36 €	7.535,12 €
10	21-03-1-0084	09-908/22-82/14	Final	1	Q4	29.114,00 €	9.704,66 €
Total						719.226,69 €	239.742,25 €

When it comes to the number of final and interim payments, out of 93 payments, the AA chose 20 payments for substantive testing which presents 21,50 % of total population. When it comes to the audited value, out of total amount of final and interim payments of 5.556.548,38 € (EU part), the AA by substantive testing covered 1.416.327,34 € which presents 25,49% 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 level²³, 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 2022, amounted to 111.130,97 €.

All sampled transactions (20 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, the 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.

²³ For the purpose of error evaluation, we used only EU part of gross expenditures.

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.

5.2.2 Non-operational transactions

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

The AA performed substantive testing of non-operational transactions separately for irregularities/debts, transactions in the IPARD Euro account and advance payments.

When it comes to irregularities/debts, there were no new cases included into debtor’s ledger during 2022 FY and the AA tested two debtors from previous years, i.e. 100 % of population, without need of any sampling methodology. However, during the assessment of debt management, the AA identified deficiency regarding classification and treatment of errors which is presented in the finding in the chapter 6.3 of this Report. Namely, deficiency which was identified in the FY 2021 and presented in the AAAR 2021 regarding recipient with ID No. 18-01-3-0004 (Contract reference 321-2098/18-39), is classified as administrative error by the IA and thus recipient is not included within debtor’s ledger. The AA wants to emphasize that recipient recovered funds on the 25th of May 2022 in amount 842,36 EUR (EU part 631,77 EUR and national part 210,59 EUR) based on the Decision for recovery of funds from 26th of April 2022.

When it comes to the movements in the IPARD Euro account, the AA identified that there were 38 transactions/movements in total (debit and credit) for period from 01/01/2022 to 31/12/2022. 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.

When it comes to the advance payments, there were 4 transactions during 2022 FY. Considering that pair “payment execution/control activity” were assessed as “Works well”, according to Guideline No 2, minimum sample size is 8 transactions and therefore the AA chose 100 % of population, without need of any sampling methodology, for substantive testing and performed verification in order to establish the legality and regularity of the declared 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 identified deficiency regarding classification and treatment of errors regarding above-mentioned recipient with ID No. 18-01-3-0004, which non-compliance was classified as administrative error instead irregularity and consequently, recipient was not registered within debtor’s ledger. Regarding recipient with ID No. 18-01-1-0303 (Contract No. 321-1325/18-25), debt was deducted from new payment request which was authorized through M3 in the Q1 of FY 2022.

Regarding recipient with ID No. 18-01-1-0228 (Contract No. 321-1349/18-10), debt was written-off in September 2022. The AA determined that these activities are correctly recorded within debtor's ledger. More information is provided in section 5.14 of this Report.

Also, AA verified that the interest was calculated on all debts on which the interest should be 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 be 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 2022 (D2).

The AA verified the completeness and correctness of the amount declared as recovered. Amount declared as recovered was credited to the IPARD Euro account within three working days from the date of recovery, recovery that was made in the reference period was recorded and included in the declaration 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, the 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.

During substantive testing of the advance payments, the AA verified legality and regularity of 4 transactions in total amount of 517.050,49 €. Namely, the AA has verified completeness of supporting documentation as well as their validity, whether requested amount is within allowed limits (maximum up to 50% of the amount of eligible costs), correctness of bank accounts of recipients on which payments were executed, whether the recipients on the black/red list, validity of bank guarantees as well as their amounts, fulfilment of contractual obligations related to submission of the Payment request for advances and execution of advance payment to the recipients, etc. After testing was carried out, the AA determined that all transactions are complete, and correct as to account, amount and period which were stated within supporting documentation. All conditions stated in the Agreements for disbursing advances have been fulfilled and the transactions have been executed to the recipient's bank account.

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 2022, 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
Quarterly declarations		
1st quarter	2.026.080,06	1.519.560,02
2nd quarter	1.489.016,02	1.116.761,99
3rd quarter	1.087.090,10	766.417,56
4th quarter	3.495.103,47	2.621.327,53
Sum of quarterly declarations	8.097.289,65	6.024.067,10
Annual declaration (D2)		6.024.067,10
Difference		0,00

We can confirm that there are no differences between the expenditure and the revenues declared with the interim quarterly declarations (D1s) and the eligible expenditure declared with the Annual Declaration (D2) related to the EU part for the FY 2022.

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	6.094.848,99
Sum of payments stated in the list of payments	6.073.598,87
Difference	21.250,12

Difference between the list of payments and the Annual declaration, in amount of 21.250,12 €, appeared due to recovery of funds of the recipient with ID No 18-01-1-0303 (Contract No. 321-1325/18-25). Namely, the recipient was registered as a debtor in the debtor's ledger and during authorization of new payment request, the debt was deducted from it. Thus, the amount of 6.094.848,99 € which is presented as gross amount of declared expenditure in the Annual declaration, represents the amount of approved funds by NAO, while the amount of 6.073.598,87 € from the list of payments, represents the amount of funds actually paid to the recipients.

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

The 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 2022;
- No double payment to a recipient was made;
- A payment order for all the payments was issued within six months from the date of the submission of the payment request by the recipient;
- Payments to the recipient were 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 19 final payments, i.e. 20 % of 93 of operational transactions 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

Reconciliation of the balance of IEA	
Document	Amount
D2	4.229.772,90
Bank account statement 31.12.	4.229.772,90
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 0,43 € 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 4.229.772,47 € is presented and in the analytical card of IPARD Euro account the amount of 4.229.772,90 € 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 0,43€.

Furthermore, the AA identified that when calculating the EU part, IA rounding numbers to two decimal places uses the function **rounding down** in excel, so the result is always a lower 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	0,00 €
Debtors' ledger	0,00 €
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 31.12.2022).

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

As it was explained in the chapter 5.4.2 of this Report, gross amount paid by IPARD Agency is 6.073.598,87 €, while declared gross amount in D2 is 6.094.848,99 €. A recovered amount based on debtor ledger is 21.250,12 €, administrative errors are 631,77 €, written-off amount is 48.900,00 € and net amount is 6.024.067,10 €.

The 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 2022.

5.4.6.3 Roll forward of the debtors' ledger

Debtors' ledger year n	Amount EU part		
(a) Opening balance year n	70.150,12 €	70.150,12 €	Debtors' ledger - Closing balance year n-1
(b) New cases	0,00 €		
(c) Recoveries	21.250,12 €		
(d) Written-off debts	48.900,00 €		
(e) Corrections	0,00 €		
Closing balance year n a+b-c-d+/-e	0,00 €	0,00 €	Closing balance as declared in the annual declaration for year n

The 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	4.229.772,90 €
Bank account statement 31.12.	4.229.772,90 €
Difference	0,00 €

The 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 31st, 2022.

5.4.7.2 Roll-forward of the IPARD Euro account

During 2022 the Commission transferred to the IPARD II Euro Account three payments on the basis of quarterly declarations related to FY 2022 in total amount of 3.402.739,65 € as well as one payment on the basis of quarterly declaration related to FY 2021 in total amount of 1.663.291,22 €. During FY 2022, there was recovery transaction in amount of 631,77 €. Beside that recovery, there was recovery of funds in the amount of 21.250,12 EUR related to recipient with ID No. 18-01-1-0303 (Contract No. 321-1325/18-25) which is not presented on the IPARD Euro account as a separate payment, because this amount was deducted through new payment request for measure 3, which has been paid in the first quarter of FY 2022.

On December 31st 2022, on the IPARD II Euro Account there was an amount of 4.229.772,90 €.

In the course of FY 2021 there was no interest, and balance of interest by December 31st 2022 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	5.236.709,13	0,00
Current account <i>[account number]</i>	5.236.709,13 [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	5.066.030,87	
- for pre-financing	0,00	
- for covering expenditure executed in the previous FY	1.663.291,22	
- for covering expenditure executed in the current FY	3.402.739,65	
Interest accrued on the IPARD Euro account during the financial year		0,00
Amount of expenditure	6.073.598,87	0,00
Amount of national contribution financed from interest		0,00
Recovered amounts	631,77	
Written-off amounts	48.900,00	

	Principal amount (EUR)	Interest (EUR)
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	4.229.772,90	
Current account	4.229.772,90	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
<i>[Deposit number] / [due date]</i>		
<i>[Deposit number] / [due date]</i>		

The 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:

	IPARD Euro account				
	<u>Principal amount</u> (EUR)	<u>Interest</u> (EUR)			
Opening balance of the IPARD Euro account	5.236.709,13	0,00			
Current account [account number]	5.236.709,13 [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					
Amounts received from the Commission in financial year	5.066.030,87				
- for pre-financing	0,00				
- for covering expenditure executed in the previous FY	1.663.291,22				
- for covering expenditure executed in the current FY	3.402.739,65				
Interest accrued on the IPARD Euro account during the financial year		0,00	Annual declaration amount of expenditure declared	Difference	
Amount of expenditure	6.073.598,87	0,00	6.094.848,99	- 21.250,12	
Amount of national contribution financed from interest		0,00	Debtors' ledger - EU part only		Difference
			Principal amount	Interest	
Recovered amounts	631,77		21.250,12	0,00	- 20.618,35
Written-off amounts	48.900,00		48.900,00	0,00	0,00

	IPARD Euro account	
	<u>Principal amount</u> <u>(EUR)</u>	<u>Interest</u> <u>(EUR)</u>
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	4.229.772,90	
Current account	4.229.772,90	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
<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 2022, no deviations were found regarding completeness, accuracy and veracity of the amounts, except deficiencies which are presented in section 6.3 of this Report.

Difference between the IPARD Euro account and the Annual declaration, in amount of 21.250,12 €, regarding amount of expenditure, appeared due to recovery of funds of the recipient with ID No 18-01-1-0303 (Contract No. 321-1325/18-25). Namely, the recipient was registered as a debtor in the debtor's ledger and during authorization of new payment request, debt was deducted from it. Thus, the amount of 6.094.848,99 € which is presented as gross amount of declared expenditure in the Annual declaration, represents the amount of approved funds by NAO, while the amount of 6.073.598,87 € from the list of payments represents the amount of funds actually paid to the recipients.

Difference between the IPARD Euro account and the debtor's ledger, in amount of 20.618,35 €, regarding recovered amounts, appeared due to the inadequate classification and treatment of the irregularity as well as above-mentioned deduction of funds. Namely, the recipient with ID No. 18-01-3-0004 (Contract reference 321-2098/18-39), recovered the funds on the 25th of May 2022 in amount based on the Decision for recovery of funds from 26th of April 2022. However, the recipient was not registered in the debtor's ledger due to the error being treated as administrative. On the other hand, in the debtor's ledger was presented recovery of funds of the recipient with ID No 18-01-1-0303 (Contract No. 321-1325/18-25), which was deducted through new payment request, and therefore the recovery was not shown on the IPARD Euro account as a separate payment.

Total amount of expenditure declared to the Commission for FY 2022 equal to 6.024.067,10²⁴ € (EU part) within four quarterly declarations submitted by NAO. First one (D1 – Q1) was declared on 28th April 2022 in amount of 1.519,560,02 €, second (D1 – Q2) was declared on 8th July 2022 in amount 1.116.761,99 €, third (D1 – Q3) was declared on 1st November 2022 in amount of 766.417,56 € and fourth (D1 – Q4) was declared on 24th January 2023 in amount of 2.621.327,53 €.

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.

The AA confirm that the negative amounts have been treated as a separate population. During FY 2022, there was one negative item 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 2022, where IPARD Agency executed 93 final and interim payments to the recipients, the AA decided to use non-statistical sampling methodology, using IDEA software in order to have randomly chosen sample.

²⁴ 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
	<u>1. Population</u>	
a	Total amount of gross expenditure	5.556.548,38
b	Materiality = 2% of a	111.130,97
c	Number of transactions in the IPARD population	93
	<u>2. Assumptions used by the AA to determine the sample size</u>	
d	Assessment of the ICS of the IPARD Agency	Works
e	Required sample size in terms of hits	18,6
	<u>3. Sample tested</u>	
	<u>3.1 Sample size</u>	
f	Number of transactions tested as part of the substantive testing sample	20
g	Value of the sampled transactions tested	1.416.327,34
	<u>3.2 Errors in the sample</u>	
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)	3
j	Value of random errors found in the sampled transactions (overpayments only)	4.285,91
k	Error rate = j / g	0,30%
l	Extrapolated error = $k * a$	16.814,52
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

	4. Tested outside of the sample	-
o	Number of additional transactions substantively tested outside the sample	0
p	Total no. of financial errors found in additional transactions substantively tested outside the sample	0
q	Value of known errors identified in additional transactions substantively tested outside the sample	0.00
	5. Errors found during compliance testing	
r	Total no. of financial errors found in compliance testing	0
s	Value of financial errors found during compliance testing classified as known errors	0.00
	6. Calculation of the financial impact	-
t	Total error = l + n + q + s	16.814,52
u	Materiality = b	111.130,97

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)

As regards advances and securities, there were 4 advances paid to the recipients and declared to the EC. As a result of substantive testing of sample of all advance payments, no errors were identified.

Basic data	<u>Advances and securities</u>
Value of the population	517.050,49
Materiality	10.341,00

Number of transactions in the population	4
Sample size	4
Total value of sampled items tested	517.050,49
Financial errors found from sampling:	No errors found
Extrapolated total error	0,00
Conclusion	
Total error	0,00
Materiality	10.341,00

A detailed table of all cases checked and the detected errors including their financial value is attached to this report, following the template of appendix 2.5.1 of Annex 2 to Guideline 3.

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 types²⁵ of error by operation) as well as the nature²⁶ of errors found, root causes and corrective measures proposed, including mitigating these errors in the future.

5.8.1 Operational transactions

Level of importance: <i>Major</i>	Body and area concerned: <i>IPARD Agency – on the spot control</i>
Finding number and title: <i>1. Ineligible expenditure related to Recipient under application ID No. 18-01-3-0014 (ref 4.1.1. of final report of audit of operations for Q1 and Q2)</i>	
Project(s) concerned: <i>ID no 18-01-3-0014 (Contract No. 321-2099/18-37), Measure 3</i>	
Description of the finding: <i>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.</i>	

²⁵ Random, systemic, anomalous

²⁶ For instance: eligibility, public procurement, state aid

The AA conducted administrative and on the spot verification of the Recipient under application ID No. 18-01-3-0014 (Contract reference No. 321-2099/18-37), who received support for reconstruction/extension of a winery through Wine sector, under Measure 3 with aid intensity of 50%. Investment consists of the reconstruction of existing facility and construction of three additional facilities that make up the winery as a whole (Administrative and technical premises – on the right side of the existing facility, Production process – the existing facility and the part of the investment on the left side of the existing facility, Premises for workers - on the left side of the existing facility).

During the administrative and on the spot verification, the AA identified deficiency. Namely, according to the main project, offer No. 126-2019 from „Omorika Montenegro“ LLC and invoices from same supplier, production process facility from the left side of the existing facility and facility for workers should have built-in seven aluminium blinds (six of dimensions 50 cm /100 cm and one of dimensions 100 cm/50 cm) whose unit price is 73,10 EUR without VAT. DOSC (Department for the on the spot control from IA) controllers confirmed that all seven aluminium blinds were found during their on the spot check and DAP (Department for the authorization of Payments) advisors authorised this number of aluminium blinds.

However, the AA auditors have found five aluminium blinds of dimensions 50 cm /100 cm on the mentioned facilities, while one aluminium blind of dimensions 50 cm/100 cm and aluminium blind of dimensions 100 cm/50 cm were not found and thus there is amount of 146,20 EUR (73,10 EUR x 2 = 146,2 EUR) which presents ineligible expenditure.

Recommendation: The AA recommends following:

- The IPARD Agency should initiate recovery of funds **in amount of 73,10 EUR (EU part 54,82 EUR and national part 18,28 EUR)** related to two aluminium blinds, which were approved and paid but for which it has been determined that are not found on the spot. Calculation is presented below:

$$73,10 \text{ EUR} \times 2 = 146,20 \text{ EUR} \times 50\% = 73,10 \text{ EUR}$$

Additionally, we recommend the IA to organize additional trainings for DOSC employees.

Auditee's response: Partially accepted

By inspecting the photo documentation, we claim that there are 6 aluminium blinds on the spot, the same dimensions they are in the invoice, while the seventh aluminium blind is invoiced differently. On-the-spot control has found that the opening of this aluminium blind, but without bars. From the outside of the object this opening (number 7), looks like a door without doorknob, but from the inside this is a window.





Conclusion by the AA: After receiving the Management response, the AA analysed the obtained data and supporting documents and determined that 6 aluminium blinds of dimensions 50 cm / 100 cm were built-in while aluminium blind with dimensions of 100 cm / 50 cm was not built-in as it was projected, but a window of the same dimensions, which is not in accordance with the main project as well as with the submitted invoice. During the AA on the spot control, auditors did not identify the aluminium blind, which is marked with the number 1 within the Management response, because from the outside it was covered by a refrigerator and from the inside by pallets of wine. Accordingly, the AA recommends the IA to initiate recovery of funds related to missing aluminium blind **in amount of 36,55 EUR (EU part 27,41 EUR and national part 9,14 EUR)**. Calculation is presented below:

$73,10 \text{ EUR} \times 50\% = 36,55 \text{ EUR}$

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: This finding has a financial impact of 27,41 EUR (EU contribution) for project 18-01-3-0014.

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

The IA made Decision on recovery of funds on 14th March 2023. Considering that, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2023.

Level of importance: Major	Body and area concerned: IPARD Agency – on the spot control
Finding number and title: 2. Ineligible expenditure related to Recipient under application ID No. 19-02-3-0018 (ref 4.1.2. of final report of audit of operations for Q1 and Q2)	
Project(s) concerned: ID no 19-02-3-0018 (Contract No. 321-4433/19-29), Measure 3	
<p>Description of the finding: 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 the administrative and on the spot verification of the Recipient under application ID No. 19-02-3-0018 (Contract reference No. 321-4433/19-29), who received support for project “Purchasing and installation of new technology equipment, construction and installation of systems for waste water treatment for the needs of the meat processing plant” through Meat sector, under Measure 3, the AA identified deficiency.</p>	

Namely, deficiency is identified in the part of the investment related to the construction of the facility for the wastewater treatment. According to the main project, offer No.03-07/20 from „Lumas M“ LLC and invoices from same supplier, next to the facility for the wastewater treatment, a surface covered with asphalt was projected. The asphalt paving includes the following items:

- Making of the lower supporting layer (buffer) from gravel or crushed stone material thickness $d=30$ cm under the pavement and $d=20$ cm under the pavement, with unit price 4,50 EUR per m2 (without VAT);
- Procurement, transport and making of the bitumenized base layer BNS-22, with unit price 16,00 EUR per m2 (without VAT);
- Procurement, transport and making of the wearing layer of asphalt concrete AB-11, with unit price 1,00 EUR per m2 (without VAT).

According to mentioned documents, this surface should be 292 m2, while DOSC (Department for the on the spot control from IA) controllers found and calculated 301,50 m2 during their control. DAP (Department for the authorization of Payments) employees took into account calculation from main project and invoice, i.e. 292 m2 and they authorized this calculation. But, these calculations are not in accordance with measurement of the AA auditors, who calculated 273,37 m2 after measuring the mentioned area, which is 18,63 m2 less than authorized calculation. Having insight into the DOSC controller's working papers, the AA concluded that they measured the same dimensions (length and width) of the mentioned area as the AA auditors, but the error occurred during calculation of the mentioned area.

Taking into account unit prices of items which are included into asphalt paving and aid intensity of 60% (contracted aid intensity was 50% and additional 10% for items related to wastewater management), the AA auditors calculated amount of 240,33 EUR (EU part 180,25 EUR and national part 60,08 EUR) which presents support that is overpaid. Calculation is presented below:

$$18,63 \text{ m2} \times 4,50 \text{ EUR} + 18,63 \text{ m2} \times 16,00 \text{ EUR} + 18,63 \text{ m2} \times 1,00 \text{ EUR} = 83,84 \text{ EUR} + 298,08 \text{ EUR} + 18,63 \text{ EUR} = 400,55 \text{ EUR}$$
$$400,55 \text{ EUR} \times 60\% = 240,33 \text{ EUR}$$

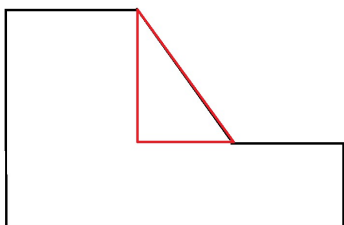
Recommendation: The AA recommends following:

- The IPARD Agency should initiate recovery of funds **in amount of 240,33 EUR (EU part 180,25 EUR and national part 60,08 EUR)** related to incorrect calculation of asphalt surface, for which it has been determined that are not found on the spot to the extent as it is approved and paid.

Additionally, we recommend the IA to organize additional trainings for DOSC employees.

Auditee's response: Accepted

The surface area that was measured has an irregular shape and contains the rectangle and rectangular trapezoid. During on the spot control, the dimensions were measured correctly, but there has been a mistake during the calculating of the surface. The formula for the trapezoid was calculated as if it was isosceles trapezoid. This way the calculated surface was more than it should. (prong of the trapezoid).



Conclusion by the AA: Considering the Management response, the AA recommends that the IA should initiate recovery of funds **in amount of 240,33 EUR (EU part 180,25 EUR and national part 60,08 EUR)** related to incorrect calculation of asphalt surface. Also, DOSC employees should pay more attention to the calculation of the surfaces that have a specific shape.

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: This finding has a financial impact of 180,25 EUR (EU contribution) for project 19-02-3-0018.

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

The IA made Decision on recovery of funds on 14th of March 2023. Considering that, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2023.

Level of importance:

Major

Body and area concerned:

IPARD Agency – authorization of projects; authorization of payments; on the spot control

Finding number and title: 3. Ineligible expenditure related to Recipient under application ID No. 19-02-3-0030 (ref 4.1.1. of final report of audit of operations for Q4)

Project(s) concerned: ID no 19-02-3-0030 (Contract No. 321-4462/19-52), Measure 3

Description of the finding:

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.

The AA conducted administrative and on the spot verification of the Recipient under application ID No. 19-02-3-0030 (contract reference No. 321-4462/19-52), who received support of 50% through Fruit and vegetable sector under Measure 3, for construction of a modern plant for the production of fruit and vegetable juices and jams with accompanying equipment. The contract for allocation of funds was signed between the Recipient and IPARD Agency based on submitted seven offers related to construction of the facility, procurement and installation of cooling chambers, juice and jam production lines, equipping the facility, technical supervision of the facility, procurement and installation of metal racks in the chambers and procurement and installation of hydraulic elevators.

During the administrative and on the spot verification of the contracted and paid items, the AA identified deficiencies which are listed below:

- According to the main project, the procurement and installation of lighting for the entire facility, including the lighting of cooling chambers, are foreseen through the construction offer, but lighting was

contracted within two offers, i.e. through the offer for the construction (high voltage electrical installations), No.29/20 from „Eurozox“ LLC and through the offer for the procurement and installation of cooling chambers, No. 054-21 from „Eurozox“ LLC, as lighting for cooling chambers. Construction offer includes 248 items related to lighting, i.e. 201 lamps of different types as well as 47 switches of different types, while offer for chambers includes 235 items related to lighting without specifying types.

After finishing the investment, the Recipient submitted payment request and supporting invoices in which the lighting was invoiced through construction invoice in the quantity of 195 lamps of different types and 53 switches of different types, and through invoice for chambers in the quantity of 215 items.

During IA on the spot control before payment, DOSC controllers (department for on the spot control of the IPARD Agency) found 246 items related to the lighting of the entire facility, including cooling chambers, i.e. 193 lamps of different types as well as 53 switches of different types. After on the spot control, DAP advisors (department for authorization of payments) entered mentioned quantities in the authorization table for same items twice. Once regarding the invoice which refers to the construction and second time regarding the invoice which refers to procurement and installation of cooling chambers.

During the AA on the spot control, the auditors found the same number of lights and switches as DOSC controllers found and determined that the lighting in the entire facility was purchased through the invoice for the construction of the entire facility, part “high voltage electrical installations”.

Taking into account main project, offers and invoices which refers to the lighting, the auditors concluded that 215 items related to lighting, from the invoice for cooling chambers, with unit price of 45,00 EUR (without VAT), should not have been authorized and paid.

- According to the main project, the surface of 1.246 m² on the ground floor as well as the surface of 612 m² on the first floor of the facility should be covered with ferro-concrete. The same quantities are stated in the invoice related to the construction of the facility, which the Recipient submitted to the IPARD Agency as supporting document with the payment request. The IA on the spot control before payment, determined that the ground floor surface of 1.386,27 m² was covered with ferro-concrete, while on the first floor they measured a surface of 576,24 m². Considering that the contracted surfaces are 1.246 m² and 612 m², the IA authorized and paid support for 1.246 m² regarding the ground floor and 576,24 m² regarding the first floor with unit price of 16,00 EUR per m² for the ground floor and 15,50 EUR per m² for the first floor.

During the AA on the spot control, the auditors measured a surface of 1.231,39 m² covered with ferro-concrete on the ground floor and 513,88 m² on the first floor and determined that the IA has wrongly authorized and paid support for 14,61 m² of ferro-concrete regarding the ground floor and 62,36 m² regarding the first floor.

Recommendation: The AA recommends following:

- The IPARD Agency should initiate recovery of funds **in amount of 4.837,50 EUR (EU part 3.628,13 EUR and national part 1.209,37 EUR)** related to the lighting from the invoice for procurement and installation of cooling chambers, which were approved and paid but for which it has been determined that present same items from construction invoice. Calculation is presented below:

45,00 EUR x 215 = 9.675,00 EUR

9.675,00 EUR x 50% = 4.837,50 EUR

<p>• The IPARD Agency should initiate recovery of funds in amount of 600,17 EUR (EU part 450,13 EUR and national part 150,04 EUR) related to incorrect measurement of ferro-concrete surfaces, for which it has been determined that are not found on the spot to the extent, as it is approved and paid.</p> <p>Calculation is presented below:</p> <p>$16,00 \text{ EUR} \times 14,61\text{m}^2 + 15,50 \text{ EUR} \times 62,36\text{m}^2 = 1.200,34 \text{ EUR}$</p> <p>$1.200,34 \text{ EUR} \times 50\% = 600,17 \text{ EUR}$</p> <p>Considering above mentioned amounts, the IPARD Agency should initiate recovery of funds in total amount of 5.437,67 EUR (EU part 4.078,25 EUR and national part 1.359,42 EUR).</p>
<p>Auditee's response: Accepted</p> <p>IA will initiate recovery of funds.</p>
<p>Conclusion by the AA: The implementation of the recommendation will be further monitored.</p>
<p>Quantification of the financial impact: This finding has a financial impact of 4.078,25 EUR (EU contribution) for project 19-02-3-0030.</p>
<p>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</p> <p>Considering that AA issued final engagement report on 2nd of March 2023, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2023.</p>

5.8.2 Non-operational transactions

5.8.2.1 Substantive testing of irregularities/debts

Findings:

Finding is presented in section 6.3 of this Report as follows:

- 1) Inadequate classification and treatment of overpayment

Assessment:

Having in mind that this finding does not have financial impact and it is not of systemic nature, the AA assessed this part of the system as "Works".

5.8.2.2 Substantive testing of advances

Findings:

The AA didn't identify any deficiency related to advance payments.

Assessment:

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

5.8.2.3 Substantive testing of the IPARD Euro account

Findings:

The 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 rate²⁷) 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 below materiality level. In addition, 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 operations²⁸, including flat rate or extrapolated corrections.

There weren't any self-corrections during the FY 2022.

5.12 Residual total error rate²⁹ 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 2022 IPARD Agency has processed and reported 5 cases of irregularities to AFCOS office. One case had financial impact, but it is closed because recipient had recovered the funds, while four cases are irregularities without financial impact. At the moment, six cases are open and some of them are from previous period. Details regarding these cases with relevant dates are presented in table below:

²⁷ As defined in Article 28(14) of Commission Delegated Regulation (EU) No 480/2014.

²⁸ This concerns both corrections on the audited sample units and corrections implemented as a result of the total error rate.

²⁹ Total errors minus corrections referred to in paragraph 5.11, divided by the total population.

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			
18-01-1-0228	4 th March 2020	Audit Authority	17th September 2020	48.900€	16.300€	30 th September 2020/12 th October 2020	Not have been recovered yet (written-off – 30 th September 2022)	Open
18-01-3-0303	25 th December 2020	Audit Authority	12th January 2022	21.250,12€	7.083,38€	10 th December 2021/24 th January 2022	D1 for Q1 FY 2022 (deduction from new payment request)	Open
18-01-1-0274	4 th March 2021	IPARD Agency	13th September 2021	/	/	/	/	Open
18-01-1-0242	15 th April 2021	IPARD Agency	12th January 2022	/	/	/	/	Open
18-01-1-0134	16 th September 2021	IPARD Agency	28th March 2022	/	/	/	/	Open
18-01-1-0201	10 th November 2021	IPARD Agency	28th March 2022	/	/	/	/	Open

Further in the text, explanations are given on cases with financial impact.

As regards case of the recipient with ID No 18-01-1-0228 (Contract No. 321-1349/18-10), 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 13th January 2021, to ask for the following steps since the recipient has not returned the funds within the legal deadline of 28th 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 31st December 2020. The

judicial proceedings are still ongoing. However, bearing in mind that the recipient was entered into Debtor's ledger on 30th September 2020 and that he still has not recovered the funds, in accordance with Article 47(6) of SA, the debt was written off, which was presented through form D1 for 3rd quarter and deducted from the payment by EC for that quarter. Furthermore, in accordance with Guideline 5 *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.* Therefore, given the fact that recipient still has not recovered the funds and that judicial proceedings are still ongoing, the IA regularly calculates interest and at the end of FY 2022 amounted to 7.532,36 EUR (EU part), as it was presented in the debtor's ledger.

As regards case of the recipient with ID No 18-01-1-0303 (Contract No. 321-1325/18-25), on the 24th January 2022 the recipient received decision for recovery of funds. Deadline for recovery of funds was 24th February 2022. In the meantime, the recipient has submitted a payment request for measure 3, which had been processed. The recipient has submitted the lawsuit and the IA has submitted the response and forwarded the case files to the Administrative Court accordingly. However, as the recipient has not returned the funds, the debt from this project (application ID 18-01-1-0303) has been deducted from the approved funds through mentioned payment request through measure 3, according to Article 41 (3) of SA. In December 2022 the IA has received the answer from the Administrative court in which the Court declares that it has no real jurisdiction and that it is necessary to refer the case to the actual and locally competent Basic Courts for further decision-making. Therefore, the case is still monitored.

As regards deficiencies identified during audit work in FY 2022 related to the recipients under application ID No. 18-01-3-0014 and ID No. 19-02-3-0018 (more details in point 5.8.1 - findings 1 and 2), the IA until the day of submission of this Report has not entered mentioned cases in the Irregularity register. Furthermore, Decisions on recovery of funds were made on 14th March 2023, although the Final report on Audit of Operations for Q1 and Q2 was submitted on 2nd December 2022, where relevant information regarding these cases were provided.

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. There were three findings with financial impact in amount of 4.285,91€ (EU part) but none of them could be considered as systemic in nature. The IA made Decisions on recovery of funds regarding recipient with ID no 18-01-3-0014 (Contract No. 321-2099/18-37) and recipient with ID no 19-02-3-0018 (Contract No. 321-4433/19-29) on 14th March 2023.

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.

Out of 20 transaction tested within substantive testing, three transactions contain financial error with error rate of 0,30%, which indicates proper functioning of controls.

Number of payments declared to the EC during FY 2022 (97 payments), in amount of 6.073.598,87 €, shows an increasing trend in comparison with the FY 2021 (60 payments) when has been declared amount of 3.525.572,47 €, but despite that fact there is a significant possibility of large de-commitment, taking into account that cca 22 million EUR must be spent by the end of FY 2023. Beside long processing applications period, one of the main reasons for the lower disbursement of funds is that the potential applicants cannot provide the source to finance the investment, due to, among other things, uncertainty on the money market. Therefore, the AA encourage operating structure to find an adequate solution to increase overall efficiency and effectiveness for implementing IPARD Programme and to strengthen publicity measures in order to attract interesting parties to apply for IPARD measures.

As regards conditional accreditation of measure 7, the AA considers that significant improvement was achieved regarding employment, but additional staff is needed in order to accelerate the process of administrative verification of projects.

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

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	Marko Tomčić	Authorized Auditor / Coordinator of Department for audit of the program of agricultural and rural development	4 years and 11 months	4 years and 11 months	P	Certified auditor/ State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Maja Klikovac	Authorized Auditor	2 years and 5 months	2 years and 5 months	P	Certified auditor/ State auditor	Audit of financial statements/reports – annual accounts, Reconciliation
	Marija Perović	Senior Auditor	6 years and 3 months	6 years and 3 months	P	Certified auditor/ State auditor	Review of AMD
	Luka Miranović	Junior Auditor	1 year and 10 months	1 year and 10 months	P	N/A	Reconciliation

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 2022 (in April, July, October 2022 and January 2023) 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:

- a) 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;
- b) 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 2022 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) Inadequate classification and treatment of overpayment

ICF requirement 3. (a)(ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles.

Level of priority: Intermediate

Body/-ies concerned by the finding: IPARD Agency

According to the DG AGRI's Annex 2 to Guideline 2 - Error evaluation, point 3.2.3, a distinction needs to be made for overpayments, on the basis of whether the error is due to a non-compliance by the recipient or solely to a wrong action by the IPARD Agency.

Administrative errors: undue payments not resulting from irregularities committed by the recipients but from an error made by the national administration (normally, the IPARD Agency).

Irregularities (also referred to as amounts to be recovered or debts): undue payments resulting from non-compliances committed by the recipients.

During verification of completeness, accuracy and veracity of the annual financial reports and statements for financial year 2022, the AA identified inadequate classification and treatment of overpayment regarding recipient with ID No. 18-01-3-0004 (Contract reference 321-2098/18-39).

Namely, the overpayment in amount of 631.77 (EU part) was identified during the audit of operation for the first two quarters of the FY 2021, when the AA auditors determined certain deficiencies regarding implementation of the investment. Considering that non-compliance was committed by the recipient, this overpayment presents an irregularity, not an administrative error as it was treated by IA and consequently this overpayment was not included into debtor's ledger for FY 2022.

Recipient recovered funds on the 25th of May 2022 in amount 842,36 EUR (EU part 631,77 EUR and national part 210,59 EUR) based on the Decision for recovery of funds from 26th of April 2022 and this recovery was adequately presented within D1 for second quarter of FY 2022 in the column recoveries/corrections, but not in the debtor's ledger due to inadequate treatment of error.

Recommendation:

Each overpayment resulting from non-compliances committed by the recipients, should be treated as irregularity, and therefore, present in debtor's ledger in accordance with relevant procedures.

AA follow up status: Open

2) Deficiencies in the filling out annual financial reports and statements

ICF requirement 3. (a)(ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles.

Level of priority: Intermediate

Body/-ies concerned by the finding: NAO-NF / IPARD Agency

According to Article 59(2)(a) of the Framework Agreement, NAO shall, with copy to the NIPAC and the Audit Authority, provide the Commission with annual financial reports or statements on accrual basis as specified in the Financing Agreement, drawn up in accordance with the format of the annual financial reports or statements attached to the Financing Agreement, which clearly distinguishes costs accepted and payments made.

According to Article 45 of the Sectoral Agreement, annual financial reports and statement referred to in Article 59(2)(a) of the FWA shall include among others:

- 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 and submitted using Form D2 as set out in Annex 6 to this Agreement and*

- a 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 in the documents referred to in Article 37 of this Agreement, accompanied by an explanation for every difference.

According to Guideline No 5 IPARD II Annual Accounts (hereinafter: Guideline), the sum of payments should tally with the amounts in the Annual declaration. If it is not the case, the NAO should provide a reconciliation with the amount declared in the annual declaration and provide explanation of any difference (even the ones due to rounding).

According to Guideline, in addition to the Annual declaration, the national authorities should provide with the Annual accounts a table showing any differences between the expenditure and the revenues declared in the Annual accounts (D2) and the amounts of expenditure and revenues declared for the same period in the four Quarterly declarations of expenditure (D1s). In general, it is not expected that there should be differences between the documents, but if any occur, they should be properly explained by the national authorities.

Bearing in mind the above-mentioned, the AA identified certain deficiencies regarding Form D2, Table of differences as well as Form D1, which represent base for filling out these documents, during verification of completeness, accuracy and veracity of the annual financial reports and statements for financial year 2022.

Regarding Form D1 for 3rd quarter, in the column Amount written-off is presented the same amount of 48.900 EUR for both, public contribution and EU part, instead of amount of 65.200 EUR for public contribution.

As regards Form D2 - Annual declaration of accounts for financial year 2022, the amount of 8.126.465,51 EUR, presented in the D2 Annual declaration of accounts as gross amount of public IPARD II expenditure (EU + national) made in the financial year, differs from total sum of public expenditure stated in the List of payments, which amounts to 8.098.132,01 EUR. Considering Guideline and above-mentioned, the AA auditors determined that NAO did not provide an adequate explanation in Form D2 regarding this difference. Difference of 28.333,50 EUR, which is related to recovery of funds of recipient with ID No. 18-01-1-0303 (Contract No. 321-1325/18-25) presented in D1 for 1st quarter, was not explained in annual declaration as it explained within Cover letter related to mentioned D1.

As regards Table of differences, in accordance with the Guideline and bearing in mind that in the Table occurred discrepancy between Annual declaration (D2) and Sum of quarterly declarations (D1s), the AA determined that an explanation for the differences have not been provided.

Recommendation:

All documents that are the basis for filling out the Annual Declaration of Accounts (D2), must be reconciled to avoid major errors so the AA recommends preparing annual financial reports and statements with due diligence, following relevant templates and guidelines issued by EC.

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. The 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, the AA included all findings, presented in previous AAARs which are not closed during FY 2021³⁰. In addition, the AA provides information on the state of play of the implementation of DG AGRI's findings/recommendations which are not closed during FY 2021 or earlier – such as related to entrustment of budget implementation tasks and/or procedural modifications as well as follow up of Action plans related to conditional entrustment of Measure 7, reservation issued with the AMD and n+4 rule.

Findings and recommendations from audits carried out by AA:

I part - Findings and recommendations identified during system audit from final report issued on 31st January 2022 – No.3011-1-06-50 including relevant management response

II part - Findings and recommendations identified during audit of operational transactions from final reports issued on 29th November 2021 – No.3011-2-06-446 including relevant management response

III part - Findings and recommendations identified during audit of operational transactions from final reports issued on 26th January 2022 – No.3011-2-06-43 including relevant management response

IV part - Findings and recommendations identified during audit of accounts from final report issued on 7th March 2022 – No. 3011-3-06-130 including relevant management response

V part - Findings and recommendations identified during system audit from final report issued on 10th February 2021 – No.3011-1-06-88 including relevant management response

VI part - Findings and recommendations identified during audit of operational transactions from final reports issued on 29th December 2020 – No.3011-2-06-409 including relevant management response

VII part - Findings and recommendations identified during audit of operational transactions from final reports issued on 10th February 2021 – No. 3011-2-06-87 including relevant management response

VIII part - Findings and recommendations identified during audit of accounts from final report issued on 4th March 2021 – No. 3011-3-06-123 including relevant management response

IX part – Findings and recommendations identified during system audit from final report issued on 26th December 2019 – No 3011-1-06-418 including relevant management response.

X part - Findings and recommendations identified during audit of operational transactions from final reports issued on 4th March 2020 – No 3011-2-06-113 including relevant management response.

XI part - Findings and recommendations identified during system audit from final report issued on 21st January 2019 – No. 3011-1-06-389/3 including relevant management response.

³⁰ Findings considered as closed within FY 2021 or earlier are not part of this Report.

AAAR	Finding	Follow-up
I part - Findings and recommendations identified during system audit from final report issued on 31st January 2022 – No.3011-1-06-50		
<p>1.</p> <p>Refer to System Audit Final report (31/01/2022)</p> <p>4.1.1</p>	<p>Unequal approach regarding VAT exemption between recipients of IPARD II funds</p> <p>Body/-ies concerned: NAO/IPARD Agency</p> <p>Level of priority: Major</p> <p>ICFR 3 (a) Selection and development of control activities, ensuring that the control activities include, inter alia, the following:</p> <p>(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>“,</p> <p>(vi) Procedures for monitoring delivery of co-financing ensuring that the legal requirements are fulfilled.</p> <p>According to Article 28 (2) of Framework agreement (hereinafter FWA):</p> <p>'(a) All imports by Union contractors shall be allowed to enter Montenegro without being subject to customs or import duties, Value Added Tax (VAT), excise duties and other special consumption taxes or to any other similar tax, duties or charges having equivalent effect. Such exemption shall only be applied to imports in connection with the goods supplied and/or services rendered and/or works executed by the Union contractors under a Union contract. Montenegro shall ensure that the imports concerned will be released from the point of entry for delivery to the Union contractors as required by the provisions of the contract and for immediate use as required for the normal implementation of the contract, without any delays or disputes over the settlement of the above-mentioned duties, taxes or charges; '</p> <p>'(b) Union contractors shall be exempted from VAT for any service rendered and/or goods supplied and/or works executed under the Union contract. Goods supplied or services rendered or works executed by a contractor to the Union contractor shall</p>	<p>Closed</p> <p>The AA determined that Rulebook on Value-Added Tax Exemptions was amended in July 2022. During FY 2022, 93 certificate for exemption from VAT was issued for 51 based on mentioned rulebook. Considering abovementioned, this finding is considered as closed.</p>

also be exempted from VAT in so far that they are connected with the objectives and activities under the Union contract;

'(i) For the purposes of this Agreement, the term "Union contractor" shall be construed as natural and legal persons, rendering services and/or supplying goods and/or executing works under a Union contract. The term "Union contractor" shall also refer to grant/loan beneficiaries (including partners, affiliated entities and sub-grant/loan beneficiaries as well as twinning contractors), partners in a consortium or joint venture, contractors and RTAs under twinning contracts as well as contractors under the Technical assistance and Information exchange instrument (TAIEX);'

'(j) The term "Union contract" means any contract or grant contract, including sub-grant/loan contracts and delegation agreements under indirect management, through which an activity is financed under IPA II, including the co-financing by the IPA II beneficiary or recipients of IPA II assistance and which is signed by the European Commission or the IPA II beneficiary or a grant beneficiary. The term "Union contract" shall also cover provisions of assistance under TAIEX and participation in Union programmes including grants received under Union programmes and co-financing of such grants.'

On the other hand, according to national legislation on VAT exemption defined in "Rules on procedures of VAT exemption of an investor and deliveries of certain goods and services („Official gazette of Montenegro", number 017/15 from 17.04.2015, 068/15 from 08.12.2015)", article 13a:

- 'Importer, deliverer of goods, service provider, or recipient of donations (international organization or natural/legal person, or other entity conducting business endeavor) in order to exercise rights with regards to exemption of VAT, when it is prescribed by international contract financed by the EU funds, or funds intended for projects implemented in decentralized, indirect and divided governing – is obliged to attach a statement that referred products and services fulfil conditions for VAT exemption. Deliverer of goods, or service provider from point 1 of this article is a contractor performing construction work when referred to realization of projects from civil engineering sector;

- The state administration body responsible for the area in which the EU assistance project is being implemented (Ministry of Finance-Directorate for

Financing and Contracting of EU Assistance, Ministry of Sustainable Development and Tourism-Directorate of Public Works and Ministry of Foreign Affairs and European Integration) shall issue a certificate for exemption from VAT;

- Exemption from VAT shall be made on the total amount of the contract, including European Union and national co-financing funds.'

According to IPARD II programme, the recipient can be either an Agricultural holding in accordance with the relevant Law on Agriculture and Rural Development, legally viewed as a 'natural person' and/or a Legal person or entrepreneur registered for the fishery and aquaculture activity in the Central Register of Business Entities (CRBE) and accordingly, both of them shall be treated equally and none of them shall benefit from more rights compared to the other.

During audit, by analyzing contracts with recipients, amounts calculated for support, methodology for VAT exemption and considering the above-quoted subsections, the AA concluded that Montenegrin practice regarding IPA II projects in the area of agriculture leads to unequal approach regarding VAT exemption between recipients of IPARD II funds. Namely, Montenegrin Government charges agricultural holdings, i.e. natural persons VAT without refund for purchasing goods, received services and/or for engaging construction companies that undergo all required procedures despite the fact that they all perform under a 'Union Contract'. On the other hand, recipients registered as 'legal persons', according to the Law on VAT are entitled to a VAT refund.

Once the recipient after undergoing the prescribed IPA II procedure, signs a contract with the IA, he is considered to execute work within IPA II assistance, and the signed contract presents a 'Union Contract' – meaning that the Recipient is a 'Union Contractor'. Additionally, it is important to emphasize that the Recipient's goods and service supplier and construction company that performs work for the recipient are qualified as 'contractors of Union Contractor' or put simply – subcontractors – and that as such, they collectively perform under a 'Union Contract'.

By a detailed analysis of EU and national legislation, the AA determined that according to both of them all recipients of IPA II funds (natural and legal persons)

have right for VAT exemption. However, since Ministry of Agriculture, Forestry and Water Management- Directorate for payment as body responsible for implementation of IPARD II programme is not involved in paragraph 2 of Article 13a of national document 'Rules on procedures of VAT exemption of an investor and deliveries of certain goods and services', agricultural holdings, i.e. natural persons as recipients of IPARD II funds do not have the right for VAT exemption.

This implies that in practice, in cases where the Recipient is an agricultural holding that is supplied with goods which are qualified as eligible expenditure, the Recipient is only entitled to refund the sum that excludes VAT. This means that in cases where the Recipient is entitled to 60% of support (refund) as predicted for measure 1, after paying the VAT - which amounts to 21% (for the largest part of the goods), the recipient is effectively left with approximately 49,59% of the actual support.

Example: If an agricultural holding, as Recipient of IPARD II support paid EUR 121.000 for an item from the List of eligible expenditure, including VAT (21%), that means that total eligible amount without VAT would be EUR 100.000. Since VAT is not eligible for IPA II co-financing, and natural persons as recipients of IPARD support do not have the right for VAT exemption according to Montenegrin practice, the recipient is effectively left with support that amounts to 60% out of total eligible amount of EUR 100.000 – which is EUR 60.000.

Bearing in mind that the Recipient actually paid EUR 121.000, and that he refunded only the public support in amount EUR 60.000 (60%), that means that the actual support that the Recipient received amounts to approximately 49.59%. $(60.000 / 121.000) \times 100 \approx 49,59\%$.

On the other hand, if a Recipient is registered as a limited liability company (or as another legal entity that is recognized by law as a 'legal person'), and if he paid for an item EUR 121.000 (including EUR 21.000 for VAT), after finishing the investment, he will receive public support of 60%, but also according to the national Law on VAT, he is entitled to a VAT refund.

	<p>The AA recommends the NAO and the IA to:</p> <ul style="list-style-type: none"> Initiate the update of national legislation regarding VAT exemption in order to align it with FWA requirements. Top management in cooperation with other institutions relevant for tax system should define as soon as possible a solution to enable natural persons as recipients of the IPARD II Programme to exercise their right to VAT exemption in order to be treated equally with all other recipients of IPA II assistance. 	
<p>2.</p> <p>Refer to System Audit Final report (31/01/2022)</p> <p>4.1.2</p>	<p>Lack of efficiency in gathering documentation</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p> <p>ICF requirement 3. (c) Policies and procedures related to control activities.</p> <p>During system audit, the AA analysed the Lists of necessary documentation for the request of support, as well as for the request for payment and determined that they are of adequate content and rightly extensive. Documents from the mentioned lists serve as base for IA employees while checking completeness and eligibility of recipients and projects, as well as for completeness and compliance of the requests for payment.</p> <p>However, it must be emphasized that collecting all the necessary documentation requires a lot of time, costs and effort for recipients because the required documentation is issued by different institutions, often from different cities, several documents are required twice, when applying for support, as well as while processing the request for payment, etc.</p> <p>On the other hand, IA employees who are in charge of processing requests also need a lot of time and effort to complete the documentation for verification, because they often have to ask for additional documentation since the submitted one either is not stamped, or is with technical errors, or is outside the deadlines defined by public invitation, etc.</p>	<p>Partially closed</p> <p>The AA took into account the IA's efforts in finding a solution in terms of obtaining information from other institutions from the public sector such as CRPS, but the AA believes that additional improvements are needed, which were stated in the IA's response. The IA needs to develop some model in order that all actors in process save time and contribute to the smoother implementation.</p>

	<p>Lack of efficiency in gathering documentation decelerates the process of IPARD II implementation, which consequently effects on IPARD reputation in Montenegro, as well as on potential de-commitment rates.</p> <p>In order to accelerate the process of collecting the necessary documentation and thus the overall efficiency of processing the request for support, as well as for payment, the AA recommends that the IA shall strive to find a solution to obtain documents from relevant state institutions, either by signing a memorandum of cooperation, requesting database access, etc. In addition to the above, the AA would like to emphasize that, in line with requirements for protection of personal data, the IA shall seek the consent of the recipients to be able to request data on their behalf.</p>	
<p>3.</p> <p>Refer to System Audit Final report (31/01/2022)</p> <p>4.1.4</p>	<p>Shortcomings in defining objectives of the IPARD Agency</p> <p>Body/-ies concerned: DMS / IPARD Agency Level of priority: Intermediate</p> <p>ICFR 2 (a) Risk management – Objective setting:</p> <ul style="list-style-type: none"> - ensuring that objectives are set at all levels with sufficient clarity to enable identification and assessment of risks relating to objectives - ensuring that operational objectives provide a clear focus to allow allocation of required resources to attain desired performance goals <p>ICFR 5(a) On-going and specific monitoring</p> <ul style="list-style-type: none"> - 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>During system audit, the AA identified insufficiently clear and precise defined operational objectives of the IA which should enable identification and assessment of risks as well as provide a clear focus to allow allocation of required resources to attain desired performance goals.</p>	<p>Closed</p> <p>The AA determined that DMS prepared and submitted KPI's to the IA on 11th April regarding current year. Although DMS has respected recommendation, in the future the DMS should send to the IA the KPI document at the beginning of the year with defined indicators and targets expected to be achieved in the current year. Prescribed deadline should be respected in order to inform the IA on time what NAO expect from them, as well as to be aware of targets they need to achieve in the current year.</p> <p>This finding is considered as closed.</p>

	<p>Namely, according to the procedures of the IA (v.2.2), objectives of the IA are established in the document Annual Work Plan (hereinafter AWP). Annex AWP is used for planning objectives in general terms for current year, but it does not provide targets for performing activities and accordingly, defined objectives are not measurable.</p> <p>On the other hand, Manual of Procedures of the DMS, Chapter Annual Management Declaration (v 2.0) prescribes that the NAO/DMS shall discuss with each IPA OS Body on results to be achieved in the current year and based on documents, discussion and the results from previous years, the NAO/SSOs shall set up the Key Performance Indicators (hereinafter KPIs) and inform each IPA OS Body. The NAO/DMS shall inform the OS/IA about targets for current year and give a detailed guidance for reporting on KPIs. The KPIs show which % of achievement is considered as successful, which is presented in the column Expected level of realization.</p> <p>During audit, the AA determined that the NAO/DMS did not send the KPIs with targets to be achieved in current year by the IA, meaning that the IA was not informed of the targets expected by the NAO to be achieved in the concerned year. According to the procedures for Annual Management Declaration, the NAO/DMS has communication with IA in the end of year N/beginning of the year N+1 on achievements of KPIs for previous year for needs of issuing Annual Management Declaration. Meaning that, the IA in the end of year N/beginning of the year N+1 receives the KPIs with the targets (expected level of realisation) they had to achieve in the previous year N.</p> <p>Analysing the procedures and essence of the KPI, the AA considers that the DMS should send to the IA the KPI document at the beginning of the year with defined indicators and targets expected to be achieved in the current year. Received KPIs shall serve to the IA management to understand what the NAO expects from them in the current year and thus, to define the IAs activities in the AWP more concretely and more precisely. Further, at the end of the year N or in the beginning of the year N+1, like until now, the IA shall send to the DMS fulfilled KPIs with results of achievement in the year N with supporting explanations, in order to prepare the AMD.</p>	
4.	Insufficient publicity of IPARD II Programme	Closed


<p>Refer to System Audit Final report (31/01/2022)</p> <p>4.1.5</p>	<p>Body/-ies concerned: Managing Authority Level of priority: Intermediate</p> <p>ICFR 4(c) Information and communication:</p> <ul style="list-style-type: none"> - ensuring that the method of communication considers the timing, recipient, and nature of communication as well as legislative and regulatory requirements and expectations. <p>According to Article 29, point 2(c) of Sectoral Agreement, the Managing Authority shall be responsible for informing potential recipients about funding opportunities under the IPARD II programme.</p> <p>During system audit, by analysing documents received by the Managing Authority and information available to the general public about funding opportunities under the IPARD II programme, the AA identified insufficient publicity of measures and public calls under IPARD II Programme.</p> <p>Namely, in 2020, two public calls had been published for Measure 1 and 3, as well as presentation of Measure 7 was performed, but by analysing realisation of Annual List of Actions for 2019 and 2020 it is noticeable that less publicity activities were carried out in 2020, comparing with 2019, although the indicators of actions should have moved progressively. Accordingly, there were less media appearances by Ministry representatives as well as less press releases.</p> <p>For example, in 2019 IPARD II programme was mentioned in a total of 114 news articles, through 69 TV channels and 214 times on the news portals, while in 2020 IPARD II programme was mentioned in a total of 81 news articles, through 60 TV channels and 187 times on the news portals. Also, Managing Authority planned recording short videos of successful IPARD II projects in purpose of IPARD promoting, but those videos have not been prepared yet.</p> <p>Furthermore, on 23rd of June, 2021, first public call for Measure 7 (sub-measure 7.1 - Support of investments for development of rural tourism) was announced. However, the AA auditors noticed very low media activity related to promotion of this new measure before its announcement, especially if we have in mind that according to the</p>	<p>The AA determined much greater presence of the IPARD II Programme in the media. During the publication of the fifth public call for measure 3, the public was well informed. Also, the Instagram and Facebook accounts - "ipardzatebe", provide timely information about activities related to IPARD. The Website is updated and also provides timely information and up-to-date documents.</p> <p>The finding is considered as closed, but due to its nature, the implementation will be continuously monitored.</p>
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	<p>requirements of this public call, some of the conditions had to be fulfilled at the moment of announcing of the public call.</p> <p>Besides above mentioned, information about public call as well as supporting documentation related to it, were published on the IPARD website on 28th June, 2021, 5 days after announcement of the public call itself, which further narrowed the space for timely and adequately applying on the public call.</p> <p>The AA is aware that, despite the situation with pandemic COVID-19, the Managing Authority managed to organize workshops in different municipalities, but considers that organising workshops is not a sufficient tool for recognising opportunities by potential applicants. Accordingly, the AA emphasises the necessity to use other ways of communication, such as social media, especially having in mind their popularity, cost-effectiveness, availability to a larger population, speed of information dissemination, easier additional research on the topic, etc. it is worth mentioning that potential applicants for this sub-measure are not only regular agricultural producers, but also people who would like to invest in some more modern form of rural development such as rural tourism.</p> <p>The AA recommends the following:</p> <ul style="list-style-type: none"> • IPARD presence in media should be higher, before and after announcement of public calls, in order to reach the entire interested public. Taking into account the benefits of social media networks and TV advertisement, as well as situation caused by COVID-19, Managing Authority should consider advertising on such platforms. • Managing Authority should provide timely detailed information on the official web page of the IPARD II programme. 	
<p>5.</p> <p>Refer to System Audit Final report (31/01/2022)</p>	<p>Non-compliance with requirements for publication of List of operations and recipients</p> <p>Body/-ies concerned: IPARD Agency</p> <p>Level of priority: Minor</p>	<p>Closed</p> <p>By insight into the IPARD website, the AA determined that List of operations and recipients for each Public call was published on 3rd February 2023. Considering that previous update was in the August 2022, the AA considers that IA respects given recommendation and this recommendation can be considered as closed.</p>

4.1.6	<p>ICF requirement 3. (a)(iv): Publicity rules and procedures ensuring that the legislative requirements are fulfilled</p> <p>According to Article 29(4) of the Sectoral Agreement, the List of the operations and recipients should be published once contracts are signed and it should be updated at least each 6 months.</p> <p>By inside into the website of the MAFWM -IPARD II programme (Naslovna (ipard.gov.me)), the AA identified that the List of operations and recipients is not updated according to the SA and procedures, i.e. at least every six months.</p> <p>For example: For M1 first List was published on 04.07.2019, second 14.02.2020 (more than 7 months later), third on 18.09.2020 (more than 7 months later) and the fourth list is published on 15.09.2021(one year later). For M3, first List of operations and recipients was published on 21.06.2019, second on 05.02.2020 (7.5 months later), third on 17.09.2020 (7 months later) and the fourth list is published on 15.09.2021(one year later).</p> <p>The AA recommends the IA to publish the List of operations and recipients in line with SA, in order to fulfil the information, publicity and transparency requirements.</p>	
II part - Findings and recommendations identified during audit of operational transactions from final reports issued on 29th November 2021 – No.3011-2-06-446		
1. Refer to Audit of operations Final report (29/11/2021) 4.1.1	<p>Ineligible expenditure related to Recipient under application ID no 18-01-3-0004</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Major</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>Closed</p> <p>After analysing supported document, the AA determined that recipient recovered funds on the 25th of May 2022 in amount 842,36 EUR (EU part 631,77 EUR and national part 210,59 EUR) based on the Decision for recovery of funds from 26th of April 2022.</p> <p>Given recommendation is implemented, so this finding is considered as closed.</p>

	<p>The Audit Authority conducted administrative and on the spot verification of the Recipient under application ID no. 18-01-3-0004 (Contract reference no. 321-2098/2018-1), who received support for construction and equipping of a winery through Wine sector, within Measure 3. Part of the investment related to the construction, consists of the construction of several facilities that make up the winery as a whole (Facility B – turbulent fermentation, Facility C - facility for workers (shower, wardrobe, toilet), Facility Part of Building – Silent fermentation, tunnel, bottling, tasting and staircase and Facility Ground floor - ceremonial hall, souvenir shop, toilet and wardrobe. During this audit, the AA identified several deficiencies related to construction, which are listed below:</p> <ul style="list-style-type: none"> • According to the main project, offer No. 08-03-19 from „ERDE “LLC and invoices from same supplier, the whole winery, i.e. all facade walls of facilities, should have been covered with stone. According to the contract signed between the Recipient and the IPARD Agency, the surface of the facade walls of Facility C should have been 50,34 m2. The controllers of the IPARD Agency, during their on-spot verification before payment to the Recipient, measured that the surface of the facade walls of the Facility C is 50,49 m2, and according to the procedures the IPARD Agency accepted 50,34 m2 as the eligible quantity during the verification of the Payment request. However, according to AA auditors' measurements, dimensions of Facility C covered with facade stone amount to approximately 38,42 m2. • According to the main project, offer No. 08-03-19 from „ERDE “LLC and invoices from same supplier, all facade walls of the whole winery should have been covered with stone of highest quality and according to submitted invoices the price of facade stone for each facility of the winery is 52,38 €/m2. However, AA auditors identified difference between facade stone on the Facility C comparing with Facility B, as well as with Facility Ground floor. Namely, there is a clear difference in the type and degree of stone processing. The stone in Facilities B and Ground floor is of high quality and processed on all sides and justifies the given price, in relation to the stone that covers the facade walls of Facility C. 	
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	<ul style="list-style-type: none"> According to the main project, offer No. 08-03-19 from „ERDE “LLC and invoices from same supplier, the thresholds of the outer doors (on Facility B – 1,2 m, Facility C – 1,40 m and Facility Ground floor – 1,75 m) should have been lined with stone. The AA auditors identified that instead of stone, the recipient lined the thresholds with tiles. According to the Authorisation table of the IA, the reported quantity of the stone for thresholds on the outer doors is accepted and paid to the recipient. The price of stone for thresholds is 21,98€/m. According to the main project, offer No. 08-03-19 from „ERDE “LLC and invoices from same supplier, the interior walls of part of Facility Ground floor, concretely ceremonial hall and souvenir shop should have been covered with stone. According to the Contract and invoices, the recipient reported 160,00 m2, while the controllers of the IA measured 140,87 m2. The AA auditors identified that the walls are covered with stone but the measured surface area of the interior walls is smaller than IPARD Agency measurement, i.e. approximately 90,1 m2. The accepted and paid price of decorative stone for interior walls is 41,32 €/m2. 	
<p>2.</p> <p>Refer to Audit of operations Final report (29/11/2021)</p> <p>4.1.2</p>	<p>Underpayment of the recipient under application ID no 18-01-3-0004</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</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>According to the procedures for authorisation of payment (v.1.1), advisors of the Department for Payments (hereinafter DAP) present in Sheet 2 of the Annex DP-DAP-00-18 Authorization table among other information, the quantity, price without VAT and total amount from the contract signed with recipient, as well as from the received invoices and bank statements from recipient.</p>	<p>Closed</p> <p>During audit work the AA determined usage an internal checklist for supervision of authorization of table in order to prevent errors from occurring. However, the IA should calculate the eligible costs with due diligence in order to protect the financial interests of both the recipient and the EC/IA itself.</p> <p>Bearing in mind that during the system audit for 2022, the AA has identified deficiency in the defining of procedures related to underpayments, the AA will follow up the recommendations regarding underpayments through the finding of the system audit.</p>

	<p>In Sheet 3 of the abovementioned Annex, the extracted data from Sheet 2 are compared with the data from field control, and on the basis of all entered data (contract, invoice/bank statement, field control), the minimum price/quantity and thus the minimum total amount is automatically calculated.</p> <p>During administrative verification of the recipient under application ID no. 18-01-3-0004 (Contract reference 321-2098/2018-1), the AA auditors identified some deficiencies within the Authorization table.</p> <p>Namely, in Sheet 3 of the Authorization Table, the advisors extracted wrong data (prices without VAT) from the column "Contract with recipient", and since the minimum prices are calculated automatically based on the entered wrong data, the total minimum amount is miscalculated too.</p> <p>The table below presents the part of the eligible costs that were miscalculated, and as such paid to the recipient, the correct calculation made by the AA, as well as the difference. As it is presented in the table, the amount that should have been accepted as eligible expenditure is reduced by 142,00€ and thus, the recipient was underpaid by 71,00€ (53,25€ EU part and 17,75€ national part):</p> <p><i>Table in Excel:</i></p>  <p>Calculation Underpayment.xlsx</p> <p>The AA recommends the IA to calculate the eligible costs with due diligence, following relevant procedures in order to protect the financial interests of both the recipient and the EC/IA itself.</p>	
III part - Findings and recommendations identified during audit of operational transactions from final reports issued on 26th January 2022 – No.3011-2-06-43		
<p>1.</p> <p>Refer to Audit of operations</p>	<p>Deficiencies in the process for verification of reasonableness of costs <i>(in accordance with observations from Acceptance of Accounts FY 2021, Ref. Ares(2022)5126621 – 14/07/2022)</i></p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p>	<p>Partially closed</p> <p>The AA still considers that 2-month deadline is too long and that it slows down the process, especially when it comes to M1. The IA should consider setting up different deadlines for different types of investment, i.e. for mechanization and equipment, the deadline</p>

<p>Final report (26/01/2022)</p> <p>4.1.1</p>	<p>ICFR 3(a) Selection and development of control activities-ensuring that the control activities include, inter alia, the following: (iii) Procedures, including checklists, for each step of procurement and grant calls (e.g. technical specifications, evaluation committees, reporting of exceptions etc.) ensuring each member of staff is clear as to their responsibilities in these areas.</p> <p>During compliance testing, the AA determined that there are several deficiencies in the process of verification of reasonableness of costs, which lead to the inefficiency of the process itself:</p> <ul style="list-style-type: none"> - According to the Guideline for work of the Evaluation Committee (hereinafter EvC), the EvC has to perform verification in the most efficient way, and maximum period from receiving the request for opinion until issuing of the opinion should not exceed 2 months. In case of breaking this deadline of 2 months, the responsible member(s) of evaluation committee are obliged to deliver relevant reasons for this case. <p>On the other hand, in Engagement contracts (Annex B - Consultants reporting obligations) signed between the Ministry of Agriculture, Forestry and Water Management (hereafter: MAFWM) and members of the EvC, it is stated that the EvC shall issue reports and outputs within 7 working days from the day of receiving request by the IA. The AA considers that the difference between the deadline in procedures (2 months) and contracted deadline (7days) is substantial, and accordingly, the IA shall define some middle ground between these two deadlines for receiving opinion by the EvC, in order to get the most reasonable price in the most efficient time.</p> <ul style="list-style-type: none"> - According to the Guideline for the work of the EvC, work of the EvC shall be monitored through regular checks performed by the IA. Head of IA shall nominate responsible advisors which will perform regular monitoring which shall be conducted on the 5% of the requests for the opinion for current public call for support. According 	<p>should be shorter than the evaluation of complex systems and production lines, whose prices are difficult for assessment. The AA will further monitor this part of finding and it remains open.</p> <p>Regarding monitoring of the EVC's work, the AA determined that exceptions for monitoring were approved and in accordance with them, head of SSS should check EVC's work instead of advisor appointed by head of the IA. In addition, the AA determined that IA conducting monitoring of the EVC's work. Namely, on the example of the 3rd Public call M3, out of 26 evaluation performed, 3 were monitored, which is 5% of evaluated prices. Considering above-mentioned, this part of finding is considered as closed.</p> <p>Regarding the EVC's procedures, the AA has insight into minutes for 4th Public call for M1 and M3 which prescribe work of the EVC in the mentioned calls. Regarding approach of evaluation of systems, minutes prescribe that the offers will be treated as a whole. Also, minutes prescribe that EVC's members should explain in more details their assessment based on professional experience, which is in accordance with the recommendation of the AA. Considering improvement in defining procedures regarding EVC's work, the AA considers this part of finding as closed.</p> <p><i>Note: New version of procedures should prescribe that for each public call, there should be a separate minutes for EVC's work, in order to align procedures with IA's work.</i></p> <p>In order to assess overall progress of EVC's work, the AA tested 20 transactions during audit of operational transactions. Out of 20 transactions, 16 are from M1 (2 from first public call, 11 from second and 3 from third) and 4 from M3 (1 from first public call, 2 from second and 1 from fourth). Regarding transactions from the first two</p>
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<p>to the Guideline, the advisors shall perform insights into checklists and existing proofs and consequently, prepare a report and submit it to the Head of IA.</p> <p>During audit, the AA auditors identified that the IA does not conduct the defined procedure and thus there is no audit trail for monitoring of work of the EvC.</p> <ul style="list-style-type: none"> - Guideline for work of the EvC describes process of nomination of EvC members, scope of work, conflict of interests, as well as monitoring of work of the EvC. The procedures for work are also described, but not in sufficient detail to understand the way of deciding on the reasonableness of costs and the possible variations from the proposed prices are not defined. <p>During previous years audit, as well as this year audit work, the AA found out that the EvC while assessing the reasonableness of prices for applications arrived under the first public call for M1 uses the rules (variations) defined in the meeting held on 24th July 2018, while for second public call for M1 uses the rules defined in the meeting held on 30th of July, 2020. However, for Measure 3, there are no defined rules for allowable variations from proposed prices. Besides that, in the Guideline of the EVC it is not defined whether the EVC shall agree on special rules for assessment for each public call and / or measure or not.</p> <p>In addition to the general deficiencies outlined above, the AA, during compliance testing noticed some other deficiencies in the work of the EvC in specific cases of recipients, which are presented below:</p> <ul style="list-style-type: none"> - Recipient with application no. 20-02-1-0021 (Contract no.09-908/20-8213/24) – Offer for anti-hail network • By analysing the rules agreed for assessing the reasonableness of the prices for applications arrived under the second public call for M1, the AA considers that it is not clearly defined when the members of the EVC shall assess the reasonableness of the prices of individual items of the offer or the reasonableness of the offer as a 	<p>calls of M1 and M3, the AA identified similar deficiency as it was stated in previous AAAR, i.e. regarding the recipients from meat sector, in which assessment, professional experience of EVC members is very important. Namely, the AA auditors identified insufficient explanation regarding some items for meat production. Regarding third and fourth public calls, the AA tested 4 transactions (3 refer to agricultural mechanization, while 1 transaction refers to equipment for meat sector). The AA auditors determined certain improvements, i.e. there is audit trail for each item which could be found by market research, while items, which were assessed by usage of professional experience, were adequately explained. Despite these improvements, scope of tested transactions could not give the auditors a clear picture of the overall progress, given that declared expenditures regarding new public calls are mostly related to agricultural mechanization, not on complex systems. Taking into account above mentioned, the AA will further monitor this part of finding and consequently it remains open.</p>
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	<p>whole. This is extremely important because there is a difference in the approved variations depending on the value that is subject to assessment.</p> <p>For example, if the EVC checks the reasonableness of a price of an individual item, there is a high probability that it is below EUR 1.000,00, and according to the agreed rules, a variation of 15% from the price obtained from EVC market research is allowed. On the other hand, if EVC checks the offer price as a whole, there is a high probability that the total amount of the offer is over EUR 1.000,00, and according to the agreed rules, a variation of 10% is acceptable.</p> <p>Specifically, for above mentioned recipient, the EVC compared the offer for the anti-hail network from 2020 (EUR 151.128,50) with the offer of another company from 2018 for the same recipient (the same items were compared, only the difference in quantity). Accordingly, the EVC came to the amount of EUR 112.687,17 (quantities from 2020 * prices from 2018) and proposed that the recipient shall be granted the amount of EUR 112.687,17 increased by 10% (because $112.687,17 > 1.000,00$). Since all prices from the offer were below EUR 1.000,00, and since the EVC had a price for comparison for each item, according to the agreed rules, the EVC could have suggested a variation of 15%, ie. to approve the amount of $112.687,17 + 15\% = 129.565,04$.</p> <p>To avoid such cases, the AA suggests that the EVC define in more detail in its procedures and explain more clearly in its response when it shall check individual prices and when the entire offer, so that they have the same approach to all recipients.</p> <ul style="list-style-type: none"> • In the answer of EVC it is stated that the offered price (EUR 151.128,50) is higher than 15% and less than 30% in relation to the EVC price (112.687,17), ie. it is 26% higher. This is a calculation error because the offered price is 34% higher than the EVC price ($(151.128,50 - 112.687,17) / 112.687,17 = 0,34 * 100\% = 34\%$) 	
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	<ul style="list-style-type: none"> • Another error in the calculation is found in calculating the variation of 10%, i.e. $112.687,17 + 10\% = 123.955,9$ (instead of 124.253,82 as proposed by the EVC and accepted by the IA) - Recipients with Application ID no. 19-02-3-0047 (Contract ref.no.321-4464/19-36) and no.19-02-3-0044 (Contract ref.no.321-4461/19-37)- Equipment for mushroom processing • Mentioned recipients applied for support with approximately same projects for mushroom processing. Out of 34 items related to equipment, which were the same for both recipients and for which IA sought the opinion of EVC, for 13 of them (one of items costs 63,800.00 without VAT) EVC answered that the price is reasonable taking into account the technical characteristics, without additional explanation. Since these are large projects with the same equipment, the EVC should have made even greater efforts to assess the reasonableness of prices. Further, if suggestion for a reasonable price is made only based on the evaluation committee expertise, then enough audit trail for these cases shall be kept. - Recipient with Application ID no. 19-02-3-0049 (Contract ref.no.321-4467/19-26) – Equipment for production-meat sector • The Recipient applied for support related to the procurement of production equipment for meat sector. By analysing the offer from the company Cavalli Meat processing machinery s.r.l., as well as EVC working papers, the AA noticed that EVC, based on professional experience, for the first item of the offer Automatic prosciutto gouging machine answered that in the first public call for a complete prosciutto gouging line the accepted price was EUR 240.000,00 and therefore the price of an automatic prosciutto gouging machine of EUR 117.120,00 in relation to the price of the complete gouging line is reasonable, without further analysis and explanation of the production capacities of the items being compared. 	
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	<ul style="list-style-type: none"> For the second item from the offer of the same company Cavalli s.r.l., Automatic machine for removing skin and rind from prosciutto, EVC answered based on professional experience that the prices of manual and semi-automatic machines for the same purpose depending on type and capacity range up to EUR 20.000,00, and therefore taking consider the degree of automation and quality of Automatic machine for removing skin and rust from prosciutto, price in the amount of EUR 172.800,00 is reasonable, without any other explanation or market research. <p>The AA is aware that received offers are from reputable meat processing machine manufacturers. However, considering that equipment from the meat sector is very specific and expensive, when EVC gives an opinion on the reasonable of prices only on the basis of professional experience, it is necessary to explain its answer in more detail in order to provide an adequate audit trail, especially bearing in mind that EVC's assessment will be used for comparison with another offer in the future.</p> <p>As several projects in the field of meat processing, mushrooms, wine production, etc. have been processed by the IA under the IPARD II programme, it means that IA and EVC already have a base with prices of production equipment. However, when comparing offers, they should also take into account production capacity, type and other important characteristics, in order to provide an adequate opinion on the reasonableness of prices.</p> <p>The AA recommends the IA to:</p> <ul style="list-style-type: none"> - Harmonize and clearly define the rules of evaluation of reasonableness of costs for all measures in order to have a same approach towards applicants, - Update the procedures of the EvC in line with agreed possible variations, in order to get a clear picture of how prices and variations are proposed, as well as whether individual items or offers are being assessed, - define a more realistic deadline for opinion of the EvC, in order to get the most realistic price in the most efficient time and thus ensure proper and in time processing of the applications, 	
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	<ul style="list-style-type: none"> - conduct the monitoring procedures as defined in the Guideline for work of the EvC in order to ensure adequate and sufficient audit trail of monitoring the process of verification of reasonableness of costs by the EvC, - assure adequate and enough audit trail on the manner of compiling prices. <p>When suggestion for a reasonable price is made only based on the evaluation committee experience, it is necessary to explain its answer in more detail in order to provide an adequate audit trail, especially bearing in mind that EVC's assessment will be used for comparison with another offer in the future.</p>	
<p>2.</p> <p>Refer to Audit of operations Final report (26/01/2022)</p> <p>4.1.2</p>	<p>Deficiency in the work of DOSC</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</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 administrative and on the spot verification of recipient under application ID No. 20-02-1-0021 (Contract No. 09-908/20-8213/24), AA identified a deficiency in the work of the Department for on the spot control (hereinafter DOSC).</p> <p>Namely, the recipient applied for investment related to apple orchard and anti-hail net system, under Measure 1. After implementation of investment and submission of Payment request by recipient, according to the procedures DOSC performed on the spot control before payment. Considering that part of investment related to the anti-hail net system included setting up of the concrete pillars (small and big ones) which hold the anti-hail net, one of the tasks of the DOSC controllers was to determine the exact number of installed pillars.</p> <p>Based on the working papers of the controllers in which the auditors had access to, the AA identified an incorrect calculation of the data determined by DOSC. During summarizing the data obtained from on the field, DOSC controllers wrongly calculated the number of small pillars. Namely, controllers made a technical error and</p>	<p>Closed</p> <p>During the audit of operational transactions for the FY 2022, the AA auditors did not identify errors of a technical nature made by DOSC controllers. In addition, the AA took into account minutes of internal meetings related to challenging situations during on the spot controls, in order to reach conclusions about the omissions made. This finding is considered as closed, but due to nature of identified deficiency, the AA will monitor it in the future.</p>

	<p>instead of 2.140 small pillars, which simultaneously coincides with the calculation of the AA auditors, after the on the spot check, they calculated sum of 2.040 and thus provided wrong information to the Department for authorization of payments. It should also be noted that each small pillar has a cap on top, which means that also 100 caps were less calculated and consequently paid.</p> <p>Considering that price of one small pillar is EUR 15,59(without VAT) and price of one cap for small pillar is EUR 3,21 (without VAT), the AA calculated that the recipient was paid less in total amount of EUR 1.316,00 without VAT. $((100 \times 15,59) \times 70\% + (100 \times 3,21) \times 70\% = 1.316,00)$.</p> <p>The AA recommends the DOSC controllers to act with due diligence while performing on the spot controls and summarizing the results, in order to protect the financial interests of both the recipient and the EC/IA itself.</p>	
<p>3.</p> <p>Refer to Audit of operations Final report (26/01/2022)</p> <p>4.1.3</p>	<p>Non-compliance of Contract for allocation of funds with relevant procedures (in accordance with observations from Acceptance of Accounts FY 2021, Ref. Ares(2022)5126621 – 14/07/2022)</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p> <p>ICF requirement 3. (a)(ii) Rules for each type of procurement and grant calls ensuring appropriate legal framework for all such commitment processes.</p> <p>During administrative verification of recipient under application ID No. 20-02-1-0021(Contract ref. No. 09-908/20-8213/24), AA identified a non-compliance of the Contract signed between the recipient and the IA under the second public call for M1 with relevant procedures for processing requests for support.</p> <p>The IA announced the second public call for M1 when the version 2.0 of the Manual of procedures was in force. The IA processed the request for support of above-mentioned recipient in line with criteria and conditions defined in version 2.0 of the MoP, except Article 8 points 4,5 and 6 of the Contract for allocation of funds, which were contracted in line with the previous version of the procedures (1.2).</p>	<p>Closed</p> <p>The AA auditors had insight into the signed annexes to the contracts with recipients, which procurement procedures were not started at the moment of signing annex. Namely, annexes contain amended Articles 8(5) and 8(6), which were incorrect in the previous version of the contract.</p> <p>Bearing in mind that the recommendation is implemented, this finding is considered as closed.</p>

	<p>The IA noticed the omission and signed an annex to the contract and thus corrected, but only Article 8 (4) of the contract, i.e. instead of the obligation of the recipient to gather and submit to the IA three offers, according to v.2.0 it is the obligation of the recipient to publish the invitation of offers on the IA website in order to enable different suppliers to submit offers.</p> <p>The AA noticed that Article 8(5) from the previous version of the manual remained in force, i.e. the obligation of the recipient to send the invitation for offers to potential suppliers and IA remained according to v.1.2 of procedures, while according to the valid version 2.0 the recipient should send the invitation only to IA. Also, Article 8(6), from the previous version of the manual, remained in force, i.e. the obligation of the recipient to be solely responsible for selection of the offer was omitted which is stated in the valid version 2.0.</p> <p>Accordingly, the recipients are misled about contract obligations and thus they may inadvertently violate the procurement procedures.</p> <p>The AA recommends the following: The IA should check the Contracts for allocation of funds signed with recipients under the Second Public Call M1 for which the procurement procedure has not started yet and if it finds that the signed contracts contain the disputed points of Article 8, to correct it by signing an annex.</p>	
IV part - Findings and recommendations identified during audit of accounts from final report issued on 7th March 2022 – No. 3011-3-06-130		
<p>1.</p> <p>Refer to Audit of Accounts Final report (07/03/2022)</p> <p>4.1.1</p>	<p>Deficiencies in the filling out form „List of all payments” for financial year 2021</p> <p>Body/-ies concerned: NAO / NF Level of priority: Minor</p> <p>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.</p>	<p>Closed</p> <p>During the audit of accounts for the FY 2022, the AA determined that the list of payments for 2022 was filled out correctly. Therefore, this finding is considered as closed.</p>

	<p>According to Article 59(2)(a) of the Framework Agreement, NAO shall, with copy to the NIPAC and the Audit Authority, provide the Commission with annual financial reports or statements on accrual basis as specified in the Financing Agreement, drawn up in accordance with the format of the annual financial reports or statements attached to the Financing Agreement, which clearly distinguishes costs accepted and payments made.</p> <p>According to Article 45(d) of the Sectoral Agreement, annual financial reports and statement referred to in Article 59(2)(a) of the FWA shall include, among others, a list of all payments made in the financial year in line with Annex 9 to this Agreement. During verification of completeness, accuracy and veracity of the annual financial reports and statements for financial year 2021 which were submitted on 15th February to the Commission, AA identified technical mistake within annex List of all payments (MS excel (xls.) format).</p> <p>Namely, the column of the mentioned annex related to the payments from the IPARD Euro account - EU funds (column No.7) shows the incorrect total amount. An error occurred due to usage of the formula "SUM" in the way that the total amount includes also the number of column (7), so the total amount of paid EU funds from the IPARD Euro account is higher by 7,00 € and instead of the amount of 3.525.572,47 € this column shows amount of 3.525.579,47 €.</p> <p>According to Addendum to Guideline No.5 on the annual accounts from 10th February 2022, the NAO/NF should submit MS excel (xls.) format of the mentioned document via SFC2014 system, which they did. NAO/NF also submitted a document in PDF format by e-mail to the Commission and that document contains correct total amount of column No.7 (3.525.572,47 €) which means these two documents have not been reconciled although the document in MS excel format should be a basis for the document in PDF file.</p> <p>All documents that are the basis for filling out the Annual Declaration of Accounts (D2), must be reconciled to avoid major errors. Consequently, the AA recommends preparing annual financial reports and statements with due diligence, following relevant templates and guidelines issued by the EC.</p>	
V part - Findings and recommendations identified during system audit from final report issued on 10th February 2021 – No.3011-1-06-88		

<p>1.</p> <p>Refer to System Audit Final report (10/02/2021)</p> <p>4.1.1</p>	<p>Inadequate recording and reporting of irregularities</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p> <p>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".</p> <p>During compliance testing and review of IPARD Agency documentation, we have identified following deficiencies:</p> <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> o Date of the first information leading to suspicion of irregularity; o Source of first information; o Date of verifying Irregularity Alert Form; o Description of suspicion of irregularity; o Temporary measures for protection of financial interests; o Initiated procedure for irregularity identification; o Suspicion of fraud; o Established irregularity; 	<p>Partially closed</p> <p>As regards irregularity management certain significant improvements were made regarding harmonization of procedures and registration and monitoring of irregularities as well. However, a major gap between getting information about suspicion of irregularity to determining the irregularity is still evident. During analysis of recorded cases, the AA has identified that the IA needed on average 168 days for bringing the Conclusion on established irregularity / non-existence of irregularity from the day when the suspicion of the existence of irregularities was detected. Therefore, additional improvements of the irregularity management are necessary in order to accelerate this process.</p> <p>As regards deficiencies identified during audit work in FY 2022 related to the recipients under application ID No. 18-01-3-0014 and ID No. 19-02-3-0018 (more details in point 5.8.1 - findings 1 and 2), the IA until the day of submission of this Report has not entered mentioned cases in the Irregularity register. Furthermore, Decisions on recovery of funds were made on 14th March 2023, although the Final report on Audit of Operations for Q1 and Q2 was submitted on 2nd December 2022, where relevant information regarding these cases were provided.</p> <p>Implementation of this recommendation will be further monitored.</p>
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	<ul style="list-style-type: none"> ○ 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. <p>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.</p> <p>- 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</p>	
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	<p>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.</p> <p>- 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.</p> <p>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 30th December 2019 confirmed by IA on 29th June 2020 and registered in AFCOS on 6th July 2020; 2) Recipient with ID No 0127 – irregularity noticed by AA report on 30th December 2020, confirmed by IA on 6th March 2020 and registered in AFCOS on 6th July 2020; 3) Recipient with ID No 0005 - irregularity noticed by AA on 4th March 2020 confirmed by IA on 17th June 2020 and registered in AFCOS on 6th July 2020; 4) Recipient with ID No 0228 - irregularity noticed by AA on 4th March 2020</p>	
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	<p>confirmed by IA on 17th September 2020 and registered in AFCOS on 4th 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 20th 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.</p> <ul style="list-style-type: none"> - 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. <p>Bearing in mind the above-mentioned observations, the AA recommends the following:</p> <ul style="list-style-type: none"> - Completing the form of Register of irregularities by adding the columns prescribed by Guidelines on irregularity management which would provide a 	
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	<p>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.</p> <ul style="list-style-type: none"> - 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 	
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	<p>related to these cases and prevention of the occurrence of irregularities or fraud.</p> <ul style="list-style-type: none"> - Filling in the Table od deadlines – as it was outlined in point 6 of finding, we recommend IPARD Agency to fill in the Table od deadlines which would provide easier monitoring of cases and clear review of information flow. <p>AA conclusion January 2022:</p> <p>Partially closed</p> <p>The AA analyzed the updates within procedures for irregularities and considers that the procedures have been harmonized with Guidelines on irregularity management issued by AFCOS Office of Montenegro, but there are still some inconsistencies, such as deadline for reporting, meaning that according to the AFCOS guidelines as well as to Annex H to FWA, the AFCOS should be notified immediately after Conclusion on existence of irregularity, while according to the procedures quarterly. Besides that, some parts of the procedure state that IA must immediately inform AFCOS as soon as the administrative or judicial decision is ready. Accordingly, there are discrepancies within procedures.</p> <p>Besides above mentioned, the AA has identified major delays in the process of determining the existence or non-existence of irregularities, e.g. for the recipient with the application ID no. 18-01-1-0097, the AA in the draft report sent to the IA on 9th November 2020, pointed out that there was a suspicion of irregularity based on field control conducted on 29th July 2020. However, upon reviewing the documentation received from the IA, the AA noticed that Annex DP-01-01 Report on Suspicious / Detected Irregularities - Internal (Irregularity Warning Form) was prepared on 1st December 2021 (more than a year delay).</p> <p>Additionally, after communication with IA, the AA was informed that the IA uses two annexes DP-01-14 Register of indicators to register every suspicion on irregularity as well as DP-01-02 Irregularity register to register confirmed irregularities.</p>	
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	<p>The AA checked whether data for recipients for whom auditors have indicated that there are suspicions of irregularity are included in these Register, such as for recipients with application ID no 18-01-1-0020, 18-01-3-0004, 18-01-1-0303 (part related to solar panels), etc. The AA identified that no register includes information about these cases. This also means that neither the Annex DP 01-01 as well as Annex DP 01-03 Conclusion on established irregularity or non-existence of irregularity are prepared for such cases.</p> <p>Further, the AA considers that there is no necessity for Annex DP-01-14 Register of indicators, because Annex DP-01-02 Irregularity register which is aligned with the Guideline issued by AFCOS includes all steps in the process of determining the existence or non-existence of irregularity.</p>	
<p>2.</p> <p>Refer to System Audit Final report (10/02/2021)</p> <p>4.2.1</p>	<p>Lack of procedures for recording and monitoring of changes IA</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Minor</p> <p>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.</p> <p>By analyzing 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</p>	<p>Partially Closed</p> <p>The AA determined that received annex included key staff changes as well as amendments on Decree for implementation of measures, but annex did not include all changes occurred during 2022. Namely, this annex does not contain adoption of IPARD II program v1.4, as well as changes related to appointments and resignations of NAO and Deputy NAO.</p> <p>The AA recommends that the aforementioned annex should be regularly updated, so the IA employees can be informed at all levels about key changes.</p> <p>The implementation of recommendation will be monitored.</p> <p>Note: in the Header of the Annex Register of significant changes, wrong reference number is stated, instead of DP-SAA-LA -05-04, it refers to Annex DP-SAA-DM-01-08.</p>

The AA recommends 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 conclusion January 2022:

Partially Closed

Within version 2.2 of the MoP the IA introduced a new annex Register of significant changes (DP-SAA-LA -05-04).

By inside into the received Annex, the AA identified that it does not include information about changes in the procedures which occurred during FY 2021 (adoption of v.2.2 from April 2021 and v.2.3 from September 2021). Namely, the IA prepares the Annex DP-SAA-DM-01-08 Table of modifications that presents changes within the manual, i.e. compares two versions of the Mops, but does not provide the information when a particular version came into force. Hence, the AA considers that information related to entry into force of a particular version of the procedures shall be included in Annex Register of significant changes DP-SAA-LA -05-04.

Besides that, received Annex does not include all changes in the EU and national legislation occurred during 2021, such as Amendment of the Sectoral Agreement from May 2021, Amendment of Financing Agreement from June 2021, etc.

Note: in the Header of the Annex Register of significant changes, wrong reference number is stated, instead of DP-SAA-LA -05-04, it refers to Annex DP-SAA-DM-01-08



DP-SAA-LA -05-04
Register of Significa

<p>1.</p> <p>Refer to Audit of operations Final report (29/12/2020)</p> <p>4.1.2</p>	<p>Substantial change of the implementation conditions</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Major</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>According to Article 8, point 12. of Contract for funds, the recipient shall not modify the project which 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 article 8, point 17 the recipient is obliged to inform immediately the Directorate of occurrences of circumstances significant for execution of Contract. During the on-the-spot verification of recipient under application ID no 18-01-1-0020, we have concluded substantial change of investment affecting implementation conditions which undermine its original objectives. 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 found 5 cows and one heifer at recipients agricultural holding. During AA on the spot control which is executed on 13.10.2020, there were 3 cows and one heifer. As a reason for decreasing a number of animal's recipient submitted veterinarian's confirmations for two missing cows. According to that documentation, one cow has died on 14.12.2019 and another one was forced slaughtered due to unprofitability on 22.08.2020. The recipient did not inform IA about</p>	<p>Remains open</p> <p>The AA considers that recommendation is implemented, but status of this finding will be “remains open” until the communication with DG AGRI on the Acceptance of accounts for FY 2020, pursuant to Article 48 and 49 of the SA, is completed.</p>
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	<p>these changes. 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 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.</p> <p>The AA recommends 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 confirm that recipient is not in position to take corrective actions and that recipient significantly undermine original objectives, IA should initiate recovery of funds in line with article 5, point 12 (j) of the Contract. In addition, we recommend 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.</p> <p>Auditor's final conclusion:</p> <p>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. The IPARD Agency controllers conducted on the spot control on 19th May 2021. They determined that recipient owned five cows and thus recipient met the eligibility criteria. The IPARD Agency submitted to AA pictures and support documentation from on the spot control, as well as passports for cows which prove ownership. Also, the Audit Authority checked the base of the Administration for Food Safety, Veterinary and Phytosanitary Affairs and determined that the recipient owned five cows in line with the eligibility criteria. After presented analysis, AA considers that there is no financial impact of error presented.</p> <p>AA conclusion January 2022:</p> <p>Remains open</p>	
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	The finding remains open until the communication with DG AGRI on the Acceptance of accounts for FY 2020, pursuant to Article 48 and 49 of the SA, is completed.	
VII part - Findings and recommendations identified during audit of operational transactions from final reports issued on 10th February 2021 – No. 3011-2-06-87		
<p>1.</p> <p>Refer to Audit of operations Final report (10/02/2021)</p> <p>4.1.2</p>	<p>Unequal approach of the evaluation committee</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Major</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>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:</p> <ol style="list-style-type: none"> 1) reference price database and or 2) comparisons of different offers; and or 3) evaluations of the evaluation committee. <p>During administrative verification of recipient under application ID no 18-01-1-0303, we have identified unequal approach in the work of the evaluation committee (hereinafter EC) 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 . The IA requested EC's opinion on the reality of “BB Solar” LLC offer prices in April 23th, 2019 and received the opinion that the prices offered were realistic without any documented market research. On June 11th, 2019, after changes occurred during processing of application, for the second time the IA requested opinion of the EC on</p>	<p>Remains open</p> <p>The AA had insight into EVC's minutes for work and determined certain improvements regarding EVC's procedures, but these improvements are not relevant for this finding considering that EVC assessed this project much earlier than the EVC minutes (attached within reply) were adopted.</p> <p>In addition, the AA's assessment of deficiency regarding determination of the reasonableness of prices for the construction of the photovoltaic system, remains the same. 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.</p>

the reality of the amended offer prices and received the same answer that the prices are realistic without any document confirming the given opinion. 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 EC on November 18th, 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 EC researched the market for some items from the "BB Solar" LLC offer and gave the opinion that the prices are realistic. However, based on EC offer analysis, the AA identified that the price of the grid invertor (2.480,00€ without VAT) is not realistic because the price is for 583.43€ higher than the price obtained by market research, i.e. the average price (1.896,56€). In the opinion of the EC it is stated that although the price 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 side, 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 is not realistic. According to EC 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 EC was identified in the opinion about the offer for well drilling and irrigation system received by "Indel Inzenjering" LLC. The EC, without documented market research, gave opinion that the offer is realistic.

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 for 6.827,725€. On the other hand, for the second item of the offer Grid invertor, average price according

	<p>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 for 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 there is not possible to do market research for irrigation system, while the same EvC has conducted market research for irrigation system for recipient with ID no 18-01-1-0114.</p> <p>AA conclusion January 2022:</p> <p>Remains open</p> <p>The AA analyzed the additional actions of the IPARD Agency and assessed the submitted opinions of the Evaluation committee and the winning company "BB Solar" and as a conclusion, the AA's recommendation remains the same.</p> <p>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.</p>	
<p>2.</p> <p>Refer to Audit of operations</p>	<p>Failure in notification about performed hidden works</p> <p>Body/-ies concerned: IA Level of priority: Intermediate</p>	<p>Partially Closed</p> <p>Taking into account that procedures v3.0, which should include harmonized and updated procedures regarding hidden works, have not entered into force. On the other hand, during audit of operational</p>

<p>Final report (10/02/2021)</p> <p>4.1.5</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>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.”</p> <p>n 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 can not be controlled during on-the-spot control before payment. “ 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. Due to nature of hidden works, for example well drilling, IA could not perform measurement after realization 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 present high risk for potential manipulation, which is not acceptable.</p> <p>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</p>	<p>transactions in FY 2022, the AA determined that recipients who was obliged to provide evidence about hidden work, submitted pictures and videos of mentioned works.</p> <p>The implementation of the recommendation will be further monitored.</p>
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hidden works, particularly when such works could not be confirmed by third party documents.

AA conclusion January 2022:

Partially Closed

The AA analyzed the procedures of the IA related to hidden works (version 2.2 and 2.3). In the Manuals for DPAP and DOSC, it is stated 'In case of hidden works according to the Contract recipient is obliged to inform DPAP **at least one-week prior** starting the realization of the activities involving hidden works. ' After receiving this information, DPAP shall send request to DOSC for additional on-the-spot control. In Annex 20 Contract for allocation of funds, article 8 (11) it is stated that '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. '

Accordingly, recipients that sign contracts with IA are not informed about the obligation to inform the DPAP at least one week prior starting the realisation of hidden works, i.e. in the contract it is stated that they are obliged to inform the DPAP, but not within what timeframe.

Besides that, by analyzing the procedures, the AA noticed that they explain the rules in case of hidden works during mounting of equipment and devices that cannot be controlled during on the spot control before payment. When it comes to hidden construction, there are no defined procedures. According to Exception which was approved by NAO on 9th September 2019, hidden construction shall be controlled from the construction books. However, although the IA continues to monitor hidden works on the basis of the construction books in accordance with the adopted exemption from procedures, this exception applied only to all contracts signed under versions 1.1 and 1.2 of the manual and is not relevant for other versions of the MoP.

	<p>As a result, the AA recommends the IA to harmonize the procedures, as well as to update them in order to prescribe necessary steps to monitor all hidden works that cannot be controlled during on the spot check before payment.</p> <p>In addition to analyzing procedures, the AA checked the work of the IA regarding hidden works. The AA would like to emphasize that with all recipients which were subject to audit during FY 2021 (such as recipients with application ID no. 18-01-1-0322, 18-01-3-0004, 20-02-1-0021, etc.) auditors found relevant evidence for hidden works (photos and videos), both for construction and equipment, which proves that IA has accepted our recommendation and is working accordingly</p>	
VIII part - Findings and recommendations identified during audit of accounts from final report issued on 4th March 2021 – No. 3011-3-06-123		
<p>1.</p> <p>Refer to Audit of accounts Final report (04/03/2021)</p> <p>4.1.1</p>	<p>Shortcomings in compiling the Balance Sheet</p> <p>Body/-ies concerned: NAO/NF Level of priority: Intermediate</p> <p>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.</p> <p>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:</p> <p>1) Amounts presented in the following accounts have been miscalculated:</p> <ul style="list-style-type: none"> - account 115-1 (receivables from EC) – according to Manual of procedures for Accounting IPARD <p>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,</p>	<p>Remains open</p> <p>As regards account 115-7, the AA emphasize relevance of its presenting in the Balance Sheet in order to get clear insight in the whole financial state of NFD regarding IPARD II Programm</p> <p>As regards the AA's recommendation regarding negative values in the column where are presented liabilities and adding a new account for recording liabilities, it could not be implemented yet due to limitations of the current SAP system.</p> <p>The implementation of the recommendation will be further monitored.</p>

<p>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.</p> <p>Furthermore, the total number of receivables amounts 49.594.75 instead of 48.274.19 (account 115);</p> <ul style="list-style-type: none"> - 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 obligate to calculate and record interest on debts. Therefore, in the Balance Sheet should be added the account 115-7 where should be recorded amount of 694,75 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 should be recording only liabilities related to prepayments, although DMS used this account for recording all obligations which included obligations for prepayments and interim and final payments as well. Accordingly, instead of amount 	
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	<p>of -6.090.568,35 should stand amount of 6.091.194,16 which presents obligation for prepayment/ interim and final payments from EC.</p> <p>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;</p> <p>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 liabilities related to interest on debts. Given the fact that there is 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 in liabilities regarding debts.</p> <p>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.</p> <p>AA conclusion January 2022:</p> <p>Remains open</p> <p>After analyzing the received answer and communication with the NFD, the AA determined that the NFD continues to use SAP system for recording data and due to the limitations of the system itself, part of the recommendations related to accounts</p>	
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	<p>115-1 (receivables from EC) as well as to 291-1 (liabilities to the EU contribution-long term prepayments-advance payments) could not be implemented.</p> <p>Also, as regards AA's recommendation related to negative values in the accounting reports, the SAP system itself shows the sign minus in the reports, meaning that amounts in the specific accounts are related to balance on the passive accounts. Since a new information system for recording data is under development and according to international accounting standards and practice, the AA recommends to remove minus from positive values on passive accounts in the new system in order to have a precise and accurate information about passive accounts.</p> <p>As regards account 115-7 (receivables for interest on debts), once again the AA emphasizes that recommendation does not relate to the Annual declaration of accounts or reporting requirements toward EC. Recommendation is related to the accounting system of the NFD and preparation of the balance sheet which is not aligned with the information on the balance sheet prepared by the IA (EU part).</p> <p>The AA received National authorities' questions and DG Agri reply document Ares (2022)695633 from 31st January 2022, and after analyzing the question and answer related to Recording of interest on debts by NFD, the AA considers that it relates to the D2 and not to the AA's recommendation, i.e. to accounting system of the NFD.</p>	
IX part - Findings and recommendations identified during system audit from final report issued on 26th December 2019 – No 3011-1-06-418		
<p>1.</p> <p>Refer to System Audit Final report (26/12/2019)</p> <p>4.2.1</p>	<p>Body/-ies concerned: IPARD Agency</p> <p>Level of priority: Intermediate</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.</p>	<p>Partially closed</p> <p>As the AA stated in the AAAR 2021, the part of the recommendation that refers to the work of the evaluation commission, will be followed up through the finding Deficiencies in the process for verification of reasonableness of costs, which is presented in the part III of this follow up.</p> <p>Regarding RPD, the AA remains of the same position that RPD and Evaluation Committee put recipients in an unequal position.</p>

<p>Before signing a contract IA use 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, we 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 different approach and accepts any deviation above 5% (including above 30%) by adding 5% to the reference price. This approach is not equitable, because recipient 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.</p> <p>In addition, procedures for work of evaluation committee doesn't 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>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>AA conclusion January 2021:</p> <p>Remains open</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>The implementation of the recommendation will be further monitored.</p>
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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 24th, 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.

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

The implementation of the recommendation will be further monitored.

AA conclusion January 2022:

Partially closed

The IA and EVC started to prepare separate minutes for each public call and thus to define in more detail rules for work and allowed variations. In the future, this part of the recommendation will be checked through follow up of finding no 3. Deficiencies in the process for verification of reasonableness of costs presented in point 5.8.1. of this Report.

As regards RPD and EVC, the AA still considers that these two systems for verification of reasonableness of prices put some recipients in a privileged position, which is presented in the document bellow:



EvC vs.RPD.xlsx

The implementation of the recommendation will be further monitored.

<p>2.</p> <p>Refer to System Audit Final report (26/12/2019)</p> <p>4.2.2</p>	<p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</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 unrespecting deadlines related to opinions of Agency for Environment Protection and the Directorate for Food Safety, Veterinary and Phytosanitary Affairs.</p> <p>Namely, we have identified following deficiencies:</p> <ul style="list-style-type: none"> • Processing of application takes so much time and thus, contracts with many recipients was 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. • Due to absence of deadline for submitting opinion by evaluation committee (verification the reasonableness of the costs), there is a large difference from recipient to the recipient 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 significantly impact on overall work efficiency in IA. • Unrespecting 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 unrespecting deadlines from the relevant bodies. For example, it took 58 days to get an opinion from the Agency for Environment Protection for the recipient under application ID no 18-01-1-0297 and on the other hand it took 187 days for the opinion from the 	<p>Partially closed</p> <p>As the AA stated in the AAAR 2021, the part of the recommendation that refers to the work of the evaluation commission, will be followed up through the finding Deficiencies in the process for verification of reasonableness of costs, which is presented in the part III of this follow up.</p> <p>Also, regarding RPD, according to the current procedures (Manual for RPD version 2.3) the AA remains of the same position that RPD and Evaluation Committee put recipients in an unequal position. Namely, regarding price variation higher than 10% and equal or less than 15% there is not same approach determined by Manual and by Minutes. In accordance to the Manual price variation higher than 10% and equal or less than 15% price is acceptable only if justification for this variation is properly documented and approved and if not, acceptable price shall be reference price without the variation. However, according to the Minutes if justification is not approved, Evaluation Committee will propose to accept the price obtained by market research with a maximum variation of up to 10%. Also, the same deficiency is identified regarding prices higher than 15% and less than 30%. According to Manual: <i>"In case prices from offer are higher than 15% of the reference price and less than 30% of the reference price acceptable price shall be reference price without the variation"</i>. On the other hand, in accordance with the Minutes regarding deviations from 15% to 30%, the Evaluation Committee will give the opinion that the price can be considered realistic only with relevant explanation and evidence, otherwise, the commission will propose to accept the price with a maximum</p>
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<p>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, we recommend following:</p> <ul style="list-style-type: none"> • 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. • Enhance working communication and procedures with technical bodies in order to respect prescribed deadlines defined in Memorandum of understanding. <p>The AA strongly believes that every part of the process should have established realistic deadline in order to make a positive pressure to all parts in the system with the aim of 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>AA conclusion January 2021:</p> <p>Partially closed</p> <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</p>	<p>deviation of up to 10% from the prices obtained by market research³¹.</p> <p>Therefore, the AA considers that the Manual for RPD should be harmonized with Minutes in this part in order to keep the same approach to all applicants.</p> <p>The implementation of the recommendation will be further monitored.</p>
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³¹ Explanation by the AA refers to the prices above 1000 EUR, the same could be applied to prices under 1000 EUR as well

	<p>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"> - deadline for submitting opinions from the EvC is defined (max 2 months), - deadline for submitting opinions from technical bodies is defined (30 days), - no new members of the Evaluation committee have been engaged. <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> <p>AA conclusion January 2022:</p> <p>Partially closed</p> <p>The AA considers that certain steps have been taken in order to accelerate the processing of applications, such as defining deadlines for opinions of the Evc and technical bodies, two new members of the Evaluation committee have been engaged, etc.</p> <p>However, given that the number of public calls is growing and that the WLA for 2022 shows the necessity of additional 6 employees in the DPAP, as well as that out of 16 employees, 6 employees have status of short-term staff, the AA considers that the risk of delays in the processing of applications is still significant.</p> <p>Besides that, the NAO approved an exception related to verification of reasonableness of costs, according to which the IA shall use only evaluation committee mechanism in assessment of reasonableness of prices exclusively for applications received during the Third public call for M1. Considering the deadline for issuing opinions (two months), as well as the fact that the EVC is the only mechanism for verification prices for all applications from public calls for measures 3 and 7 whose processing is in progress, and now for third public call for measure 1 as well, the AA considers that it will additionally affect the duration of application processing.</p>	
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<p>3.</p> <p>Refer to System Audit Final report (26/12/2019)</p> <p>4.6.3</p>	<p>Body/-ies concerned: Managing Authority</p> <p>Level of priority: Intermediate</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) 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.</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, we identified that during public calls in 2018 the MA did not take over responsibilities prescribed in the article 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 just 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>AA conclusion January 2021:</p> <p>Partially closed</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, coordination between MA and IA is enhanced regarding the selection of</p>	<p>Partially closed</p> <p>The MA did not update procedures in order to better implementation of the requirements from the SA, even though the MA stated within reply last year that it would do so. Until submission of supporting documents, the finding remains partially closed.</p>
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	<p>measures and their timing, which results in preparation of Plan of publishing IPARD public calls.</p> <p>However, SA clearly define that <i>“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”</i> which is not reflected in new procedures.</p> <p>AA conclusion January 2022:</p> <p>Partially closed</p> <p>The MA plans to update written procedures in order to better reflect the requirements from the SA. Until then, finding remains partially closed.</p> <p>The AA highlights that there should be adequate communication regarding the plan for announcement of public calls as well as the content of the public calls themselves.</p>	
X part - Findings and recommendations identified during audit of operational transactions from final reports issued on 4th March 2020 – No 3011-2-06-113.		
<p>1.</p> <p>Refer to Audit of operation Final report (04/03/2020)</p> <p>4.1.3</p>	<p>Body/-ies concerned: IPARD Agency</p> <p>Level of priority: Intermediate</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</p>	<p>Remains open</p> <p>Taking into account that IA did not harmonize procedures in line with Guidance on the responsibilities of recipients concerning information and communication toward the public Ares (2020)2698488 from May 25th, 2020, this finding remains open.</p> <p>The implementation of the recommendation will be further monitored.</p>

	<p>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 taking of 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 requirements is to label the investment, regardless of the risk of part or the entire project being rejected.</p> <p>AA conclusion January 2021:</p> <p>Remains open</p> <p>The AA once again emphasizes 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 25th, 2020, the AA recommends the IA to update the manual of procedures accordingly, in order to adequately inform the recipients about their responsibilities concerning information and communication to the public.</p> <p>The implementation of the recommendation will be further monitored.</p> <p>AA conclusion January 2022:</p> <p>Remains open</p>	
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	<p>The AA identified that the IA did not update the procedures in line with Guidance on the responsibilities of recipients concerning information and communication toward the public Ares (2020)2698488 from May 25th, 2020.</p> <p>According to received Guidance, the phrase “During implementation of an operation/project” which is explained in Annex 8 of the SA means 'during the period in which the recipient carries out the supported activity/project. The recipient will have to display publicity, readily visible to the public, from the moment he/she starts the physical works on the project or from the delivery of equipment. '</p> <p>Besides that, according to Guidance ' The financial support from the European Union to be disclosed shall be the amount indicated in the signed contract between the IPARD Agency and the recipient. It is recommended to be complemented by the national public support and the private contribution, so that also the total project costs are visible.</p>	
XI Part - Findings and recommendations identified during system audit final report issued on 21st January 2019 – No. 3011-1-06-389/3		
<p>1.</p> <p>Refer to System Audit Final report (21/01/2019)</p> <p>4.10.1</p>	<p>Body/-ies concerned: IPARD Agency</p> <p>Level of priority: Intermediate</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"> o In order to determine the reference price, there must be a minimum of 3 comparable prices. o The “Reference prices database” should contain data from the following sources: <ul style="list-style-type: none"> • Submitted invoices from the IPARD Programme, MIDAS Project (grant scheme) or the other national measures for rural development • Prices (from invoices) will be entered after investment is finalized • Market research. 	<p>Partially Closed</p> <p>The AA took into account that IA regularly update reference price database and fact that are 924 verified prices in RPD. However, the AA determined that during processing projects from the third and fourth public call M1, in accordance with adopted exceptions, the IA did not use RPD but EVC assessment of reasonableness of prices.</p> <p>Therefore, in order to get a clearer picture of the implementation of the recommendation, the AA will monitor the improvements of the RPD in the future, when it will be used more.</p>

By the insight into the RPD, we 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 means that the reference price is not calculated for each entered product, taking into account criteria of minimum three comparable prices for each item.

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 **and influences on reliability of reference price.**

The AA recommends the following:

- 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.
- 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

Auditor's final conclusion: 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>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 result of WLA and capacity needs for the purpose of market research.</p> <p>The fact that the RPD calculate 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> <p>AA conclusion January 2021:</p> <p>Remains open</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>AA conclusion January 2022:</p> <p>Partially Closed</p> <p>According to the new Rulebook, a new organisational unit under the Sector for Structural Support – Department for Technical and Economic Analysis was established. The new department is responsible for verification of the reasonableness of prices and for economic analysis of projects.</p> <p>Also, the IA updated the procedures and in cases where the recipients, after procurement procedure receive offers with model and type different from the</p>	
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	<p>contracted ones, but with the same technical characteristics, before approval of the payment request, the IA employees shall check once again the RPD for exact model and type.</p> <p>Additionally, the IA started using other sources for RPD such as market research conducted by EvC. Currently, the RPD contains 924 verified prices with valid dates (766 are entered from Measure 1 The second Public Call, while 158 prices are entered from Market Research). At the moment, in the RPD there are 73 products with referent price.</p> <p>AA considers that a progress has been made regarding RPD, but it is necessary to further strengthen the base with new prices, from different sources. As a new department has been established, the AA expects a comprehensive market research from the employees of the department as well.</p> <p>AA considers this recommendation as partially closed and taking into consideration the importance of the issue, it will be in our focus in the upcoming audit work.</p>	
	<i>DG AGRI findings</i>	<i>Follow up</i>
I part - Reiterated observations raised in the letters of observations regarding the entrustment request under IPARD submitted by Montenegro in December 2015 (letter of closure with recommendations from Ares (2016)5055192 dated 06/09/2016 and Ares (2017)2326805 dated 05/05/2017).		
Ares (2016) 5055192 dated 06/09/2016 Ares (2017) 2326805 dated 05/05/2017	<p>3. Recommendation for the NAO</p> <p>DG AGRI status of recommendations</p> <p>Situation as of the letter of findings and observations Annex of Ares (2016) 5055192 dated 06/09/2016</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</p>	<p>Partially closed</p> <p>Frequent cyber-attacks marked the previous year and jeopardize the whole IT system in the public administration. Bearing in mind existing challenges, the AA considers that further strengthening of Division for IT is crucial which implies additional employments. According to the latest staff overview document there are still 3 employees (2 on long-term and 1 on short-term contract) although the Rulebook envisaged 5 working posts (without Head of IT). Therefore, the AA recommends taking steps to fill the vacant positions.</p>

<p>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>Situation as of the latest DG AGRI communication to Montenegro Annex of Ares (2017)2326805 dated 05/05/2017</p> <p>REMAINS OPEN</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>FINAL ASSESSMENT</p> <p>PARTIALLY IMPLEMENTED</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</p>	<p>Regarding position of the Head of IT, the internal announcement for the relevant position was published in November 2022, in December 2022, the candidate for position Head of IT passed the test. However, decision was not made until submission of this Report.</p> <p>In addition, the IA has plan to form a working group for the implementation of the information security standard ISO IEC 27002. The working group will be composed of representatives of all sectors in the directorate, by the end first quarter of 2023. The IA also planned to find a way to finance and then to hire a consulting firm that would help work on compliance with the ISO IEC 27002 standard.</p> <p>In the course of 2023, the IA has plan to produce a report on the state of information security.</p> <p>In January 2022, company HLB Mont Audit has finished the audit activity regarding accounting software. This company did not identify anything which could indicate that IA statements are not prepared in all materially relevant aspect, based in General Ledger maintained in accordance with IAS for public sector, but some deficiencies were identified. Accordingly, the AA recommends the IA to follow the road map proposed by the external audit company for the implementation of the given recommendations.</p>
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	<p>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>Cut off January 2021</p> <p>Partially closed</p> <p>Based on tests performed, AA concluded that IA maintains high information security standards and respect basic principles of ISO 27002 standards. 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 26th January 2021. The deadline for submitting bids is February 9, 2021 and signing of the contract is expected by the end of March.</p> <p>Cut off January 2022</p> <p>Partially closed</p> <p>As regards Information system security, the AA in AAAR for FY 2018 recommended the IA that follow up of the remaining findings from the final report issued on 8/11/2016 should be performed by an external audit. Accordingly, the IA requested assessment of the information security and related activities, processes, procedures and documentations from external audit. The selected external audit company Ernst & Young d.o.o. Belgrade, began their engagement in June 2021, and as a result of</p>	
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their work, the Final Report was submitted to the IPARD Agency on November 23, 2021



IPARD_Final_Report
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According to the audit report, out of 17 findings from previous audit, the IA implemented 9 recommendations, 5 recommendations were partially implemented and 3 recommendations were not implemented.


Besides that, the engaged audit company conducted an audit of the current state of implemented ISO 27001 controls, where they identified 19 findings. Accordingly, the AA recommends the IA to follow the road map proposed by the external audit company for the implementation of the given recommendations.

Regarding number of employees in IT sector, according to the Rulebook 6 WP are systematised. Currently there are 3 employees (2LTEC and 1TEC) The IA started the procedure for filling one working post for Advisor for IT.

Besides that, for the position of Head of the IT sector, in December 2021 the Government of the MNE gave the approval for filling of this work post. Announcement for the same is published on 10th February 2022.

As regards Action Plan ISO 27002 adopted by the Government of Montenegro, new Steering Committee in charge for the monitoring of the implementation has been established. First meeting has been held on February 2nd 2022.

As regards accounting software, after tender procedure, company HLB Mont Audit was selected and the contract is signed in November 2021 (Contract Assurance

	<p>Engagement of the Accounting Policy for the IA No. MNE-MIDAS2-8820-ME-CQ-CS-21-1.2.3.10.2). Currently, the audit is underway.</p> <p> HLB Mont Audit.pdf</p>	
<p>Ares (2019) 7226447 dated 22/11/2019</p>	<p>DG AGRI status of recommendations</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>Audit Authority follow up</p> <p>Cut off 25.01.2020</p> <p>Remains open</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 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</p>	<p>Partially closed</p> <p>According to the Staff overview from February 2023, in the Department for Technical end Economic Analysis is currently 8 employees (including Head of DTEA). However, in the Rulebook, which was adopted in May 2022, it is envisaged 10 work posts (including Head of DTEA) in this Department, therefore the AA recommends initiating procedures for filling vacant post due to its importance in view of accreditation of measure 7.</p>

	<p>increase workload of this particular position, which cannot be mitigated by employment of additional 15 employees planned for 2020.</p> <p>Cut off January 2021</p> <p>Remains open</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 remains open.</p> <p>Cut off January 2022</p> <p>Partially closed</p> <p>In accordance with the Rulebook on internal organization and systematization of the Ministry of Agriculture, Forestry and Water Management from April 2021 new Department for technical and economic analyses (DTEA) is established, which is among other things in charge of conducting the procurement procedure.</p> <p>According to the Rulebook, 4 working posts are envisaged for this department and currently, 3 employees have LTEC and one TEC. Taking into consideration the extensive scope of work of DTEA, according to the WLA, 8 working posts are needed for this Department. In order to meet the needs of the DTEA, an additional two employees were taken over from other departments to work in this Department. These employees work only for DTEA, until the adoption of a new act on systematization. Accordingly, and taking into consideration that staffing capacity is of significant importance also in view of conditional entrustment for Measure 7, the AA recommends immediate actions related to adoption of the new Rulebook.</p>	
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	As regards managing of procurement procedures, according to version 2.3, it is a responsibility of head of the DTEA. Head of DTEA has the right to access the e-mail for receiving offers and designates one person to change it in case of absence.	
Follow up of the Action plan on the DG AGRI letter of closure with conditions and recommendations concerning the REBIT M7 (February 2023)		
Ares (2020) 2004695 dated 09/04/2020	<p>1.1 Staffing situation – Operating structure</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 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"> • the department for publicity and authorisation of projects: occupation rate of 69 % (out of 16 posts, 5 employees are on long term leave); • 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); • the department for the on-the-spot controls: occupation rate of 80% (out of 15 posts, 3 vacancies); and • the department for execution of payments: occupation rate of 60% (out of 5 posts there are 2 vacant positions). <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.</p>	<p>Partially closed</p> <p>IA</p> <p><i>Rulebook</i></p> <p>In order to fulfill the conditions for full accreditation of measure 7 the IA has undertaken certain measures regarding amendments of Act of internal organization and systematization (hereinafter: Rulebook). At the Government session held on 29th September 2022, the Rulebook on amendments to the existing Rulebook of the Ministry of Agriculture (from May 2022), Forestry and Water Management was adopted, which implied 3 additional work posts in the Directorate for Payments (Department for authorization of payments). Therefore, number of positions based on the current Rulebook is 103 of which 76 are filled. However, according to WLA for 2023 it is necessary to engage additional 36 employees. As the Rulebook determined positions for only 26 additional employees, a request for amendment to the Rulebook on internal organization and systematization of Directorate for Payments was sent, which will include the missing working post.</p> <p><i>WLA</i></p> <p>Comparing the WLA form July 2022 and the WLA from December 2022, number of required work posts increased from 75 to 84. Total number of needed new employees also increased from 15 to 36. The highest number (12) of new employees is planned for UPAP, which is justified considering the fact it is responsible for preparation</p>

<p>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><u>Recommendation:</u></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 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><u>Based on the above finding, DG AGRI will include the following conditions in Article 7 of the Financing Agreement for measure 7:</u></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"> - 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. 	<p>and announcement of public invitations as well as for reception and records of requests for support.</p> <p><i>Current staff and Recruitment plan</i></p> <p>In accordance with the submitted documentation, it is evident that the IA has been actively working on strengthening personnel capacities. Although, in January 2023 is 2 less employees than in November 2022, number of long-term contracts was increased by 4 (employees who previously were engaged under the short-term contract) and number of short-term contracts is reduced from 15 to 9 employees. Number of employees on long-term leaves is 9 (7 are on maternity and 2 are on sick leave).</p> <p>Regarding fluctuation of staff, it is important to mention leaves of Mr Branko Šarac - Head of SOSC and Mr Džemil Kalač - Head of Sector for administrative affairs. They were replaced by staff members Ms Marija Radunović and Mr Marko Adžić in order to ensure continuity in performance.</p> <p>Furthermore, in January 2023 the position of the Head of DIA is filled. Also, regarding the vacant position of Head of the IT sector, according to submitted documentation (Report and list of selected candidates for the position of the head of the DIT) the employment decision will be made in March 2023. In October 2022 the MAFWM published announcements for employing 7 more employees on long-term contracts (4 advisors in DAAP, 1 advisor in DTEA and two advisors in SIT). Decisions for employment under a long-term contract for five employees are made, two candidates did not pass testing in Human Resources Management Authority.</p> <p>As regards trainings, the AA considers that IA employees attended considerable number of training, a total of 67. When it comes to new</p>
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<p>- The Managing Authority has presented a realistic planning for filling in their vacant posts. DG AGRI will verify the corrective measures taken and acknowledge by official letter that the above conditions are lifted.</p> <p>AA Follow up February 2021</p> <p>Partially closed</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. 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> <p>AA Follow up February 2022</p> <p>Remains Open</p> <p>IA</p> <p>Rulebook In April 2021, a new Rulebook was adopted, according to which 76 work posts are systematized, which increased the number of positions within IA (7 more WP). According to the adopted Rulebook, the IA prepared Decisions and Job descriptions.</p>	<p>employees, they attended 31 trainings in total. Most of trainings for new employees was related to measure 7, sub measure 7.1, measure 1 and to annual reporting, preparation and issuance of system functionality guarantees for individual EU supports programs, including treatment of key system indicators. However, the AA recommends continuous trainings for all employees.</p> <p>Considering undertaken actions regarding staffing situation in the IA, the AA can conclude that a notable progress in realization of Action plan for M7 has been conducted. However, bearing in mind the significant role of IA in withdrawing the IPARD funds and the fact that 2023 is the closing year for IPARD II, the AA considers that further improvement of personnel capacities is still a high priority for accelerating the contracting and payment process.</p> <p>MA</p> <p><i>Rulebook</i> Regarding the MA, according to current Rulebook number of systematized working posts is 13 and according to submitted documentation there is no need for increase in number of work posts.</p> <p><i>WLA</i> WLA for 2023 as well as WLA for 2022 has shown that there is no need for further employment.</p> <p><i>Current staff and Recruitment plan</i> Current number of employees is 11 as well as the last two years. Also, 10 employees are on the long-term contract and only one is engaged under the short-term contract. None of employees is on long-term leave. According to the Recruitment plan for 2023 public</p>
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	<p>WLA</p> <p>In July 2021, the IA prepared a new WLA, according to which the number of required work posts in IA was reduced from 84 (WLA from February 2021) to 80.</p> <p>AA considers that this reduction was not realistic and in line with the existing needs of IA for the efficient and effective IPARD implementation. However, the IA updated the WLA for 2022 and increased the necessary number of employees for IPARD implementation (89).</p> <p>Due to the change in the number of necessary employees presented in WLA 2022 and as previously announced, a new rulebook for the IPARD implementation is expected to be adopted.</p> <p>Current staff and Recruitment plan</p> <p>In comparison with AAAR 2020, there was an increase in the number of employees from 72 to 74. The AA identified that there were efforts to employee new staff, however, oscillations in the number of employees during the year were noticed, which further confirms that an adequate retention policy is not being implemented. Based on the information from February 2022, number of LTEC remained the same (57), while the number of TEC raised from 15 to 17. 5 employees are on long-term leaves (maternity/pregnancy/sick leave).</p> <p>As regards Head of the IT sector, in December 2021 the Government of the MNE gave the approval for filling of this work post. Announcement for the same is published on 10th February 2022.</p> <p>According to Recruitment plan and adopted State budget for 2022, employment of 10 new employees has been predicted. Additional 2 officers shall be engaged through short term contracts in 2022. Meaning a total of 15 (including three positions for which the procedure for engagement has initiated in 2021) new employees in 2022.</p>	<p>call for “Senior advisor in Division for Programing” will be announced for the position which is at the moment covered by employee with temporary employment contract. Also, in accordance with the Rulebook there is one vacant position in the Division for Monitoring and Evaluation, Coordination and Public Relations.</p> <p>When it comes to fluctuation of staff in MA was no staff fluctuation during 2022.</p> <p>As regards trainings, employees attended 4 trainings in total during 2022. These trainings consisted of working groups, round tables and video conferences. Most training were related to TA for Capacity Assessment for introducing meadows and pastures into LPIS and to select Agro – Environmental Measures. The AA recommends continuous trainings for all employees</p> <p>In conclusion, taking into account the considerable amount of unused funds and the fact that 2023 is closing year for IPARD II Program, the AA considers that filling every vacant position is significant as well as additional effort in strengthening personnel capacities.</p>
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	<p>On the other hand, in the period from October 2021 to January 2022, IA extended the TEC of a total of 12 employees until May / June 2022. Given that these employees are hired on a short-term contract until May/June 2022, the AA recommends the IA to pay attention to the actual increase in the total number of employees in FY 2022. Certainly, it is important to notice that the employment of 15 employees in 2022 is planned on long-term contracts, which will contribute to the stability of the working atmosphere.</p> <p>As regards trainings, training rate is lower than expected. However, due to pandemic Covid-19, the AA considers that IA employees attended a considerable number of trainings during the FY 2021, a total of 79. By analysing the training register, the AA noticed that the employees of the DOSC attended trainings related to well drilling, use of GPS device, etc.as recommended by the AA. However, the AA recommends continuous trainings, especially for new employees.</p> <p>MA</p> <p>Rulebook</p> <p>As regards the MA, according to the new Rulebook that was adopted in April 2021, the number of systematised working posts is 13 (4 WP less than envisaged in the previous Rulebook)</p> <p>WLA</p> <p>According to WLA for 2021 number of necessary employees in the MA was 11. By analysing the documents received in January 2022, the WLA for 2022 has shown that there is no need for further working posts.</p> <p>Current staff and Recruitment plan</p>	
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	<p>In comparison with AAAR 2020, there was an increase in the number of employees from 9 to 11. There were no oscillations in the number of employees during the year. Based on the information from February 2022, number of LTEC is 9, while the number of TEC is 2. 1 employee is on long-term leaves (maternity leave).</p> <p>Ms Andrijana Rakočević was officially appointed on the position of Director General on February 2nd 2022. No new employment is planned for 2022.</p> <p>As regards trainings, according to the received training register, during FY 2021, employees of the MA attended a total of 11 trainings.</p> <p>Bearing in mind that the REBIT for Measure 9 was submitted to the EC in February 2022 and taking into consideration the role of the Managing Authority under the Technical assistance measure, the AA considers that the capacity of the MA shall be further strengthened by additional trainings.</p>	
<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.2 Permanent Appointment of the Head of the IPARD Agency and the Head of the Managing Authority.</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>DG AGRI considers that the Montenegrin authorities should proceed to official permanent/long-term appointments for these two key positions.</p> <p><u>Recommendation:</u></p>	<p>Partially closed</p> <p>At the Government session held on September 13th 2022, Mr Vladislav Bojović has been reappointed as the Acting Director General within Directorate for Payments. Furthermore, the Government has approved the announcement of a public competition for this position based on the request submitted by Ministry of Agriculture. According to the IA reply, competition will be published and implemented by the end of March 2023.</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.

Based on the above finding, DG AGRI will include the following condition in Article 7 of the Financing Agreement for measure 7:

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.

DG AGRI will verify the corrective measures taken and acknowledge by official letter that this condition is lifted.

AA Follow up February 2021

Partially closed


IA

Head of IA was appointed on June 25th 2020 on five years period.

MA

Mr Darko Konjević, on his personnel request, resigned from the position of the Director General/Head of Managing Authority in February 9th 2021. Government of Montenegro officially terminated his mandate on the session held on February 11th 2021.

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>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>AA Follow up February 2022</p> <p>Partially closed</p> <p>In September 2021, the Government of Montenegro appointed Mr Vladislav Bojovic to perform the function of Acting Director General of the Directorate for payments (IA) and Ms Andrijana Rakocevic as Acting Director General of the Directorate for Rural Development (MA).</p> <p>Ms Andrijana Rakočević was officially appointed on the position of Director General on February 2nd 2022.</p> <p> Decision on appointment_AR.pdf</p> <p>The AA recommends appointment of Head of IPARD Agency on permanent base.</p>	
<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.3 Permanent Appointment of the Head of the Audit Authority</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>Recommendation:</p>	<p>Closed</p> <p>At the Government session held on November 16th 2022, the Government of Montenegro adopted a decision on the appointment of Ms Ksenija Barjaktarovic as an Auditor General/Head of the Audit Authority based on the previously conducted testing procedure by Human Resources Management Authority.</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>AA Follow up February 2021</p> <p>Official appointment of Head of Audit Authority, i.e. Auditor General has not been made since November 2018.</p> <p>AA Follow up February 2022</p> <p>Remains open</p> <p>Official appointment of the Head of Audit Authority, i.e. Auditor General is still pending.</p>	
<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.4 Staff Retention policy</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>Recommendation:</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>Partially closed</p> <p>Considering the fact that since February 2022 to January 2023 number of employees on long-term contract increased from 55 to 64 and number of employees on short-term contract is reduced from 17 to 9 certain improvement in Staff retention policy is evident. Bonus to the salary as one of the most effective motivation tool should be paid several times a year depending on volume of work. However, the AA considers that continually effort regarding this policy is necessary.</p>

	<p>AA Follow up February 2021</p> <p>Partially closed</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> <p>AA Follow up February 2022</p> <p>Partially closed</p> <p>Fluctuation in the number of employees during the FY 2021 prove that the retention policy is not adequate.</p> <p>As regards Decision on top up salaries, in FY 2021, the IA employees received the top ups only once. In addition, in the current Decision about top-up, the internal auditors dealing with IPARD are not included.</p> <p>The AA considers that the IA should take corrective actions as soon as possible to ensure adequate retention and motivation policy in order to prevent brain drain of competent staff with sufficient skills.</p>	
<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.6 Information systems security</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. 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>Partially closed</p> <p>Frequent cyber-attacks marked the previous year and jeopardize the whole IT system in the public administration. Bearing in mind existing challenges, the AA considers that further strengthening of Division for IT is crucial which implies additional employments. According to the latest staff overview document there are still 3 employees (2 on long-term and 1 on short-term contract) although</p>

<p>Recommendations:</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>AA Follow up February 2021</p> <p>Partially closed</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 and documentations from external audit. Content of the public tender was announced on the MIDAS website on 26th January 2021. The deadline</p>	<p>the Rulebook envisaged 5 working posts (without Head of IT). Therefore, the AA recommends taking steps to fill the vacant positions.</p> <p>Regarding position of the Head of IT, the internal announcement for the relevant position was published in November 2022, in December 2022, the candidate for position Head of IT passed the test. However, decision on employment was not made until submission of this Report.</p>
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for submitting bids is February 9, 2021 and signing of the contract is expected till and of March 2021.

AA Follow up February 2022

Partially closed

As regards Information system security, the AA in AAAR for FY 2018 recommended the IA that follow up of the remaining findings from the final report issued on 8/11/2016 should be performed by an external audit. Accordingly, the IA requested assessment of the information security and related activities, processes, procedures and documentations from external audit. The selected external audit company **Ernst & Young d.o.o. Belgrade**, began their engagement in June 2021, and as a result of their work, the Final Report was submitted to the IPARD Agency on November 23, 2021



IPARD_Final_Report
.pdf

According to the audit report, out of 17 findings from previous audit, the IA implemented 9 recommendations, 5 recommendations were partially implemented and 3 recommendations were not implemented.

Besides that, the engaged audit company conducted an audit of the current state of implemented ISO 27001 controls, where they identified 19 findings. Accordingly, the AA recommends the IA to follow the road map proposed by the external audit company for the implementation of the given recommendations.

	<p>Regarding number of employees in IT sector, according to the Rulebook 6 WP are systematised. Currently there are 3 employees (2LTEC and 1TEC) The IA started the procedure for filling one working post for Advisor for IT and announcement was published on 29th December 2021.</p> <p>Besides that, for the position of Head of the IT sector, in December 2021 the Government of the MNE gave the approval for filling of this work post. Announcement for the same is published on 10th February 2022.</p>	
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Follow-up on Action Plan on NAO reservations from Annual Management Declaration process for the year 2020 for DG AGRI review and acceptance for the Programme for the development of agriculture and rural development in Montenegro under IPARD II 2014-2020

Reservation issued/ Referent Programme	Description of the weakness determined	Mitigation measures determined	Status of fulfillment of action AA Follow up February 2023
<p>Control environment - Establishment of structures, reporting lines, authorities and responsibilities – Significant change of the IPA institutional and organisational framework in the 2020 caused by the formation of the new Government and its influence on the established dynamics and functioning of the referent IPA units in the second half of 2020 (for all programmes) IPARD II</p>	<p>At the first session of the newly elected Government of Montenegro on December 7th 2020, new Decree on the organization and manner of work of the state administration was adopted. The mentioned Decree has significantly changed the organization of the entire state administration, and thus the Operating Structures that are included in the model of indirect management of EU pre-accession assistance (IPA II). Bearing in mind that Montenegro is obliged to respect the provisions set in the Framework Agreement signed with the European Commission in terms of providing an efficient and effective system for the implementation of pre-accession support programmes (IPA II), it is now necessary to adjust the Operating structure included in the model of indirect management of EU pre-accession assistance (IPA II) to the</p>	<p>Preparation and adoption of the new Decision on the appointment of key IPA officials.</p>	<p>Remains open</p> <p>DMS/NAOSO prepared specific set of articles that will be included in Law on budget and fiscal responsibilities where legal base for further steps for implementation of EU support will be ensured. Upon the official adoption of the Law on budget and fiscal responsibilities by the Parliament of Montenegro, DMS/NAOSO will update and amend Decision on appointment of the key IPA officials accordingly and process it further to adoption by Government of Montenegro.</p> <p>According to the given explanation, this finding remains open until the adoption of the Decision.</p>

Follow-up on Action Plan on NAO reservations from Annual Management Declaration process for the year 2020 for DG AGRI review and acceptance for the Programme for the development of agriculture and rural development in Montenegro under IPARD II 2014-2020

Reservation issued/ Referent Programme	Description of the weakness determined	Mitigation measures determined	Status of fulfillment of action AA Follow up February 2023
	<p>newly adopted Decree on the organization and manner of work of the state administration. With the reorganization of certain ministries and public administration bodies, it should be emphasized that there is a need to determine the segregation of duties and responsibilities of previous IPA units to the newly established state administration.</p> <p>Taking into consideration the governmental changes, each of the newly formed ministries is obliged to adopt the relevant Rulebook on Internal Organization and Systematization. It is necessary to identify relevant organizational units and adequate staff capacities that will be in charge of performing IPA tasks through the implementation of IPA II programmes. After the completion of this process, it is necessary to propose a new Decision on appointment of persons in indirect management of EU pre-accession funds in this regard. The Ministry of Finance and Social</p>		

Follow-up on Action Plan on NAO reservations from Annual Management Declaration process for the year 2020 for DG AGRI review and acceptance for the Programme for the development of agriculture and rural development in Montenegro under IPARD II 2014-2020			
Reservation issued/ Referent Programme	Description of the weakness determined	Mitigation measures determined	Status of fulfillment of action AA Follow up February 2023
	Welfare/National Authorising Officer will continue with the practice of issuing a formal opinion on the Rulebook on Internal Organization and Systematization of State Administration Bodies, in order to ensure that tasks and responsibilities are recognized by modalities proposed.		

When it comes to the follow up on AA recommendations, out of 22 recommendations issued during previous years, 9 are implemented, 9 partially implemented and 4 remain open.

As regards DG AGRI's recommendations, there were 2 recommendations in total and both are partially closed.

As regards entrustment of Measure 7 and 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 on all outstanding recommendations and out of 5 corrective measures envisaged within the Action plan, according to AA assessment, 4 can be considered as partially closed, while one recommendation is implemented.

As regards Reservation issued with AMD for 2020, DMS/NAOSO prepared specific set of articles that will be included in Law on budget and fiscal responsibilities where legal base for further steps for implementation of EU support will be ensured. Upon the official adoption of the Parliament of Montenegro of the Law on budget and fiscal responsibilities, DMS/NAOSO will update and amend Decision on appointment of the key IPA officials accordingly and process it further to adoption by Government of Montenegro. This finding remains open until the adoption of the Decision.

The AA considers that the internal control framework of the IPARD bodies continues to comply with the conditions for entrustment, as set in Article 12 and Annex B of the FWA.

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

The AA confirms that it is not aware of any subsequent events affecting the previous audit opinion and the previous AAAR, i.e. for FY 2021.

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

There were no subsequent events occurred after the submission of the declaration of expenditure and financial statements and before the transmission of the annual audit activity report which would affect establishing the level of assurance and opinion by the audit authority.

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 2022 for IPARD II submitted by NAO to EC, No. 05-908/23-89/1 from 15th February of 2023, 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 bottle necks on timely and adequate communication. Communication was jeopardized also according to the lack of staff and establishment of the precise reporting lines within and outside IA in 2022. According to the conducted interview with the IPARD Agency employees, we confirm that there was problem with e-mail communication while preparing certain documents. IPARD Agency does not have employee to be responsible for whole procedure of collecting data and communication of issuing AMD. One of the corrective actions on NAO reservation is changing Rulebook on internal organization and systematisation in order to employ person for that purpose, as well as, to clearly define procedures of internal and external channels of communication. However, general conclusion of the AA is that IA issued all documents they are obliged to, even there were some communication obstacles.

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

- Overview of the major IPA institutional and functional changes

- Overview of the key audit findings and recommendations
- Overview of the results of KRI measurement
- Overview of the results of KPI measurement
- Overview of Irregularity Reports in 2022
- Overview of risks treated in 2022
- Staff overview table
- Register of Changes cut off date 31.1.2023.
- Registers of exceptions of NAO/MS and IPARD OD bodies
- Follow up of the Acton plan on n+4 rule IPARD II
- Follow-up on the AP in regards to entrustment of the Measure 7
- HR Progress overview M7.

By verifying AMD for the purpose of issuing the AAO and AAAR for 2022, the AA determined following:

- Annual Management Declaration for 2022 was issued by Deputy NAO, even if the NAO position is fulfilled. NAO was appointed on the Government session held on January 20th 2023.
- According to the Manual of procedures of DMS, NAO Assessment Report shall contain, among others, Internal audit findings and follow up actions of the NFD and the bodies constituting the OS. In the Report is stated "The process of preparation of the Annual Management Declarations includes comprehensive analyses of the existing findings of the European Commission's auditors, findings from the Audit Authority's reports, on-the spot checks and administrative controls of the Directorate for Management Structure, the recommendations from the Internal Audit Unit reports, etc." In order to have better insight in internal audit findings and corrective actions taken, AMD should contain part with summary of internal audit findings and recommendations and corrective actions taken.
- According to the Commission Implementing Regulation No 447/2014, article 9 (4), NAO shall follow up AA reports. Based on the audit work done over the year and communication with the NAO, we determine that the NAO follows the AA audit reports and recommendations. Anyway, in the Annex B of the AMD – Overview of the key audit findings and recommendations issued in 2022, not all open findings issued by the AA in 2022 are included, i.e. Unequal approach regarding VAT exemption between recipients of IPARD II funds, Non-compliance with requirements for publication of List of operations and recipients, Deficiencies in the process for verification of reasonableness of costs, Deficiency in the work of DOSC, Non-compliance of Contract for allocation of funds with relevant procedures.
- In the NAO Assessment report on functioning of MCS for the year 2022 Design and operating effectiveness of the ICFR Monitoring of internal control framework/On-going and specific monitoring were assessed as full. However, taking into consideration the AA findings given through system audit report from 30.1.2023. the operating effectiveness of mentioned ICFR can be considered as partial.

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 2022 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 2022:

- 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, the 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)

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 below the materiality level, based on results of audits performed during FY 2022. The 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 errors are related to the deficiencies which don't present errors of systematic nature.

Regarding absorption of funds, the AA has already emphasized within previous AAARs that risk of de-commitment of unused funds is still very high, especially taking into account that cca 22 million EUR must

be spent by the end of FY 2023. Number of payments declared to the EC during FY 2022 (97 payments), in amount of 6.073.598,87 €, shows an increasing trend in comparison with the FY 2021 (60 payments) when has been declared amount of 3.525.572,47 €, but despite that fact, regarding allocation for 2019, Montenegrin authorities unfortunately didn't achieved target to be spent, and thus calculated amount of de-commitment is cca. 0.97 million EUR. Currently, through the IPARD Programme, the AA encourages operating structure, especially IPARD Agency to strengthen capacity of the IA by increasing number of employees according to the WLA. The AA considers that significant improvement was achieved regarding employment, but additional staff is needed in order to accelerate the process of administrative verification of projects.

In addition, the Montenegrin authorities should perform adequate root cause analysis for low absorption of IPARD funds in order to increase efficiency of IPARD Programme and to improve overall reputation of the Programme as well.

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 error, 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 ³²	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	5.556.548,38€ ³³	1.888.436,45€	1.416.327,34€	93	20	4.285,91€	0.3	0.3	/	/

³² Expenditure from complementary sample and expenditure for random sample not in the reference year (amount).

³³ This amount is relate only to 93 final and interim payments.

11. ABBREVIATION AND ANNEXES

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

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
CRBE	Central Register of Business Entities
D1	Declaration of Expenditure and Revenue
D2	Annual declaration of accounts for FY
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
DIA	Division for Internal Audit
DMS	Directorate for Management Structure
DOSCRMD	Department for On-the-spot control for rural development measures
DP	Directorate for Payments
DPAP	Department for Publicity and Authorisation of Projects
DTEA	Department for Technical and Economic Analysis
EC	European Commission
EU	European Union
FA	Financing Agreement
FY	Financial Year
FWA	Framework Agreement
IA	IPARD Agency
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
ISA	International Standards on Auditing
KPIs	Key Performance Indicators

LAP	Law of administrative procedures
MA	Managing Authority
MAFWM	Ministry of Agriculture, Forestry and Water Management
MCS	Management Control System
MF	Ministry of Finance
MIDAS	Montenegro Institutional Development and Strengthening project
MOP	Manual of Procedures
NAO	National Authorising Officer
NAOSO	The NAO Support Office
NFD	National Fund Division
NIPAC	National IPA coordinator
OG	Official Gazette of Montenegro
OTSC	On the spot control
RPD	Reference price Database
SA	Sectorial Agreement
SSOs	System Supervision Officers
WLA	Work Load Analysis