



MONTENEGRO
AUDIT AUTHORITY

No: 3011-4-06-189/1

ANNUAL AUDIT ACTIVITY REPORT
OF THE AUDIT AUTHORITY
FOR PROGRAMME
AGRICULTURE AND RURAL DEVELOPMENT OF MONTENEGRO - IPARD II

FOR THE PERIOD FROM 01 JANUARY UNTIL
31 DECEMBER 2023

Podgorica, March 15th, 2024

CONTENT

- 1. [INTRODUCTION](#)..... 3
- 2. [SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS](#)..... 12
- 3. [CHANGES TO THE AUDIT STRATEGY](#)..... 26
- 4. [SYSTEMS AUDITS](#)..... 26
- 5. [AUDITS OF SAMPLES OF TRANSACTIONS](#)..... 46
- 6. [AUDITS OF THE ANNUAL FINANCIAL REPORTS OR STATEMENTS/ANNUAL ACCOUNTS](#)... 94
- 7. [FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY](#)..... 97
- 8. [OTHER INFORMATION](#)..... 165
- 9. [OVERALL LEVEL OF ASSURANCE](#) 166
- 10. [TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS](#)..... 169
- 11. [ABBREVIATION AND ANNEXES](#) 170

1. INTRODUCTION

1.1 Details of the responsible Audit Authority and other bodies that have been involved in preparing the report

The Audit Authority of Montenegro, as an independent audit body, was established by the Law on Audit of European Union Funds (OG 14/12, 54/16, 37/17 and 70/17). The Audit Authority (hereinafter: AA) is responsible for audit of European Union (hereinafter: EU) funds (Instrument for Pre-accession Assistance, 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 management and control system of European Union funds.

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 on 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 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) (hereinafter: FWA), as well as relevant European Commission (hereinafter: 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	Rina Mucaj Demirovic	Authorized Auditor / Head of Department for audit of the program of agricultural and rural development	10 years and 9 months	10 years and 9 months	P	Certified auditor/ State auditor	All listed members were involved in the preparation of this Report
	Marko Tomčić	Authorized Auditor	5 years and 11 months	5 years and 11 months	P	Certified auditor/ State auditor	
	Marija Perović	Authorized Auditor	7 years and 3 months	7 years and 3 months	P	Certified auditor/ State auditor	

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 2023**.

The audit activities performed in the audit period for the financial year were governed by the **Audit Strategy 2023-2025**. Audit period began on 4th May 2023 and ended on 11th March 2024 when the last final audit report was sent to the auditees.

For the reference period the following audit activities were performed:

- **System Audit (test of design and test of controls),**
- **Audit of sampled transactions/operations,**
- **Audit of Accounts including non-operational transactions,**
- **Verification of Annual Management Declaration and**
- **Follow-up activities.**

In the context of system audit¹, in accordance with the Audit Strategy 2023-2025, the AA performed system audit with objective to determine whether the Internal Control systems (hereinafter: ICS) established in the IPARD Agency (hereinafter: IA), Managing Authority (hereinafter: MA), National Fund Division (hereinafter: NFD) and NAO support office (hereinafter: NAOSO), for financial year 2023, 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 carried out through test of procedures and compliance testing (test of controls) in Directorate for Management structure (hereinafter: DMS which consist of NAOSO and NFD) and Operating structure (IA). According to Audit Strategy 2023-2025, following audit areas were examined:

No	Scope of the audit		
	Assessment criteria and sub criteria (ICFR) (AC)	Auditee	Process / sub-process
1.	1(b)	NDF	Supervision by management of tasks delegated to subordinates
2.	1(d)	IA, MA	Staff planning, recruitment, retention, training and appraisal
3.	2(c)	IA, NAOSO, NDF	Fraud risk

¹ Presented in detail in Section 4 of this Report

4.	2(d)	IA, NAOSO, NFD	Identification and assessment of changes affecting the system of internal controls
5.	3(a)	IA, NAOSO, NFD	Selection and development of control activities
6.	3(b)	IA, NAOSO, NFD	Security control activities
7.	4(c)	MA	External communication
8.	5(a)	NAOSO, NDF	On-going and specific monitoring
9.	5(b)	NAOSO, NDF	Assessment, recording and communication of internal control deficiencies

Besides above listed Internal Control Framework Requirements (hereinafter: ICFR), which were obtained by risk assessment which is presented in the point 5.3 of the Audit Strategy 2023-2025, in the system audit for FY 2023, the AA also included the following ICFRs:

No	Scope of the audit		
	Assessment criteria and sub criteria (ICFR) (AC)	Auditee	Process / sub-process
1.	4(a)	IA	Information to support functioning of internal controls
2.	4(b)	IA	Internal communication
3.	4(c)	IA	External communication
4.	3(c)	IA	Policies and procedures related to control activities

The reason for the subsequent inclusion of ICFR 4 (a, b, c) in IA in the scope of system audit is the issued Reservation in Annual Management Declaration for FY 2022 regarding information and communication in IPARD Agency. As regards ICFR 3(c), within system audit, AA reviewed written procedures related to ex-post checks conducted by IA.

Additionally, as part of system audit, AA conducted compliance testing according to Guideline No 2 IPARD II Audit Strategy, on 12 operational transactions chosen from sample withdraw for substantive testing (dual purpose testing). AA also conducted compliance testing on 10 projects withdrawn from the Register of controlled executed case files ex-post, for whom IA has conducted ex-post controls.

In the context of audit of operational transactions², in accordance with the Audit Strategy 2023-2025, the AA performed test of transactions with objective to confirm the legality and regularity of declared expenditures in financial year 2023. The AA conducted three audits of operation, one related to the first and second quarter (D1 – Q1 and Q2), second related to third quarter (D1 – Q3) and third audit of operations related to expenditure declared in the last quarter of FY 2023 (D1 – Q4).

² Presented in detail in Section 5.2.1 of this Report

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 2023 (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	22	2	1	689.702,82	229.900,99	50.117,50	16.705,84	18.089,11	6.029,70
Q2	16	4	5	788.882,12	262.960,75	154.180,40	51.393,47	385.677,37	128.559,14
Q3	28	2	9	1.561.641,47	520.547,21	71.436,37	23.812,13	486.582,96	217.694,46
Q4	46	6	1	3.787.544,46	1.262.514,90	636.668,25	212.222,77	8.890,31	2.963,44
Total	112	14	16	6.827.770,87	2.275.923,85	912.402,52	304.134,21	899.239,75	355.246,74

As it is presented in the table above, in the D1s for the FY 2023 there were 142 executed and declared payments to the EC, i.e. 112 final, 14 interim and 16 advance payments under the contracts financed from IPARD II programme.

According to Guideline No 2 IPARD II Audit strategy and considering the assessment made in the previous period for Internal Control System of the IPARD Agency ("Works"), the AA determined the minimum sample size as 20% of the population size, i.e. $126 \times 20\% \approx 26$ operational transactions to be tested. The total population for the audit of operation consisted 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 2023, the AA applied non-statistical sampling in order to determine the sample size.

In the context of audit of accounts³, in accordance with the Audit Strategy 2023-2025, 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 compliance and substantive testing of non-operational transactions (irregularities/debts, advances and transactions in the IPARD Euro account).

In the context of verification of Annual Management Declaration (hereinafter: AMD)⁴, the AA reviewed the AMD and supporting documents issued by NAO in order to issue an opinion whether the examination puts in doubt the assertions made in the management declaration.

³ Presented in detail in Section 6 of this Report

⁴ Presented in detail in Section 8.3 of this Report

In the context of follow up⁵, in accordance with the Audit Strategy 2023-2025, the AA performed follow up on recommendations issued in previous AAARs, on the remaining recommendations from DG AGRI Reports, Follow up of the Action plan on the DG AGRI letter of closure with conditions and recommendations concerning the Request for entrustment of budget implementation tasks (hereinafter: REBIT) for M7, Follow-up on Action Plan on NAO reservations from Annual Management Declaration process for the year 2020 as well as for year 2022. Additionally, AA conducted follow up on progress of implementation of Action plan of the DG AGRI letter of closure with conditions and recommendations concerning information systems security audit ISO27002 in IPARD agency and Management structure, which is already submitted to DG Agri on 28th January 2024 and is also attached as Annex 6 to this Report.

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

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

The IPARD II Programme was adopted by Commission Implementing Decision C (2015)5074 from 20th July 2015, modified in December 2017, May 2019, April 2021, February 2023, October 2023 and December 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.

In order to meet the minimum requirements for the implementation of Measure 7, MNE Authorities developed an Action plan regarding Human resources and administrative capacities within Operating structure of IPARD II programme and reported on quarterly basis on the state of play. According to signed Financing Agreement, recommendations had to be eliminated by the beginning of the first payment under the Measure 7. On March 22nd 2023, based on the reports and evidences review, DG AGRI submitted a Letter concerning the review of the conditions for entrustment of budget implementation tasks to Montenegro for Measure 7, where it is stated that Montenegrin authorities have addressed the main issues related to full accreditation criteria and that recommendations stipulated in the Action plan have been adequately implemented, and consequently the relating conditions and limitations were lifted as of the date of the referent letter of DG

⁵Presented in detail in Section 7 of this Report

AGRI. Although DG AGRI auditors verified that the conditions of the Financing Agreement were satisfied, National authorities are still obliged to report on the status of implementation of the Action plan on quarterly basis.

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. The Independent Assurance Report of external audit company has been prepared and signed on May 9th 2023. During 2023, Montenegrin IPARD authorities submitted additional and updated information on DG AGRI request (May and November 2023) in order to provide additional guaranty that institutional framework is established and legal base is set in place.

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) – **Mr Bojan Božović**, State Secretary in the Ministry of European Affairs appointed on January 11th 2024. The NIPAC is responsible for overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance;
- The National Authorizing Officer (hereinafter: NAO) – **Ms Milica Adžić** – State secretary in the Ministry of Finance appointed on February 8th 2024. 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 – Directorate for management of the EU pre-accession funds structures within Ministry of Finance, managed by Acting Director General **Ms Anja Amidžić**, also performing function of Deputy NAO in case of NAO absence. At the session held on January 11th 2024, Government adopted the Decision on the re-appointment of Ms Anja Amidžić in acting status. The Management structure consists of two separate divisions, which are formally established on October 25th 2017:
 - National Fund - Division for national fund and managing of accounts – **Ms Žana Jovanović** - Head of Division 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.
 - NAO support office - Division for control framework management and system supervision – managed by **Mr Velibor Damjanović** – Head of NAOSO from April 1st 2019. The NAOSO is accountable to the NAO and assists the NAO in fulfilling defined tasks
- The Operating structure consists of:

- Managing Authority – Directorate for Rural Development in the Ministry of Agriculture, Forestry and Water Management, managed by **Ms Andrijana Rakočević**, appointed on 16th September 2021 as acting Director General 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 – Directorate for payments in the Ministry of Agriculture, Forestry and Water Management, managed by Director General **Mr Marko Radonjić**, appointed by the Government of Montenegro on September 14th 2023. 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.

As regards information system security, after audit was conducted by external company on behalf of DG Agri related to implementation of ISO/IEC 27002 (Ares (2022)1276153 dated 21/02/2022 ITR/2021/006/ME) and cyber-attack which occurred in August 2022, information system security became a crucial issue for Montenegrin MCS for IPARD II. Implementation of given recommendations is important for the establishment of an adequate security framework over the information system and the implementation itself would mean the fulfilment of the objectives of compliance with the ISO 27002 standard. Implementation of given recommendation is also a specific condition defined in Financing Agreement for IPARD III programme, according to DG Agri letter Ref (2023)5251704 from 28/07/2023, where it is stated that structures and procedures set up for IPARD III fulfil the minimum conditions (with one specific exception) and that the entrustment of budget implementation tasks for Measures 1, 3 and 7 under IPARD III can be granted through the conclusion of a Financing Agreement.

As a result of audit work, AA noted that the majority of technical controls in IA have been implemented leading to the higher assurance on the information system. Given recommendations are mainly technically resolved, however, low progress has been made in updating current procedures and formalisation of new missing policies, procedures and instructions.

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 2023-2025 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 2023.

In accordance with Art.59 (2) of the FWA for the Programme IPARD II the NAO has submitted the Annual Management Declaration and Annual financial report for FY 2023⁶ 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 2023, following the Guideline 8 and form defined by Annex E of the FWA.

As regards Information system security, an external company on behalf of DG Agri has conducted audit in IA and Management Structure in October 2021 and issued Report in February 2022 with findings and recommendation. As response to the findings identified by DG Agri auditors, IA and Management structure have prepared an Action plan with defined deadlines for implementation of recommendations related to ISO/IEC 27002. According to Letter Ref. Ares (2023)5251704 from 28th July 2023, NAO is in charge of reporting quarterly on the state of implementation from 15th October 2023 and AA should monitor the progress of implementation of recommendations related to Information systems security - IT audit enquiry with reference ITR/2021/006/ME and report to DG AGRI every 3 months as of the date of received letter. Follow up on DG AGRI letter and Information system recommendations was performed by the AA in January 2024 with a cut-off date 15th January 2024. Results are submitted to DG Agri on 28th January 2024.

In order to obtain a more realistic overview of the situation and whether progress has been made, the AA compared the IA's and Management structure's responses from April 2023 with the situation assessed in January 2024. The AA considers that improvement has been made since April 2023, mainly due to the appointment of the new Head of IT Division fulfilling the vacant position, the new positioning of Information Security Officer under the Head of IA and the efforts of technical IT staff in the IA.

AA noted that majority of recommendations from the Action plan were acted upon in IPARD agency (24/28). Out of 28 recommendations for IA:

- 2 have been implemented,
- 12 partially implemented, meaning that some part of the recommendation has already been implemented, either technically, procedurally,
- 10 are in progress, meaning that something has been initiated, a draft version of the procedure has been prepared, etc., but no part of recommendation has been finalized and
- 4 not implemented yet, i.e. no progress has been made to date.

For all identified findings and recommendations, AA considers that the involvement and support of the entire MCS is extremely important because they require certain financial and organizational resources. Audit Authority follow up to Action plan on implementation of ISO 27002 is attached as Annex 6 to this Report.

⁶ On 15th February 2024 (Ref. 08-908/24-78/1)

Further implementation of recommendations will be monitored and reported as it is requested by DG Agri (every 3 months).

AA would like to emphasise that considering the fact that the AA was not involved in the exchange of information between the DG Agri auditors and MNE authorities and hence was not familiar with the course of event, further, the fluctuations of employees in IA, and especially within the IT department, as well as the passage of time since the audit was performed (October 2021), it was very challenging to obtain relevant information for the audit work. By analysing the documents and information obtained during the audit, AA considers that there was a gap in communication between MNE authorities on one side and the external company that was engaged on behalf of DG Agri for audit of Information system security, because by insight into the set of documents that were delivered to IT auditors, the AA noted that official IA procedures were not included. Namely, IA has formalised Manual of procedures version 2.3 which has been adopted in September 2021 and which includes inter alia, Access control policy, Information Security Policy, Manual for IT sector and Physical Control with relevant annexes.⁷ AA agrees that current formalised version needs to be updated and complemented with missing policies, procedures and instructions in order to be aligned with ISO/IEC 27002, but the fact is that some procedures existed at the time when the audit was carried out by DG Agri auditors. Certainly, IA has prepared majority of draft versions of new procedures for new programming period 2021-2027, which fine-tuning, harmonisation and formal approval remains to be done.

Additionally, after cyber-attack from August 2022, IT security became a matter of importance for Montenegro. With expert support, AA assessed the IT situation before and after cyber-attack in IA and noted some improvement in IS security following the event. However, some deficiencies have been identified.⁸

Bearing in mind existing challenges, the AA considers that IA should take further steps in strengthening administrative capacities of Division for IT, where additional employments are needed. According to the latest staff overview from February 2024, there are 3 employees although the Rulebook on internal organisation and systematisation envisages 6 working posts. Therefore, the AA recommends taking further steps to fill the vacant positions. Regarding the Head of IT, vacant position is fulfilled in May 2023. As regards segregation of duties between the information security officer and Head of IT department, AA noted that according to the Rulebook, ISO is defined as a separate position, responsible to the Head of IA. The position is filled and the ISO operates in accordance with the employment decision.

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.

As regards Management structure, external company on behalf of DG Agri performed a limited review over the findings and action plans, resulting from DG NEAR information security systems audit carried out to the National Fund in 2016 [Ares (2017)1012215 dated on 24/02/2017] and its follow-up in 2018 [Ares (2018)2662644 dated on 23/05/2018]. DG Agri auditors observed that comprehensive information security

⁷ List of all annexes within version 2.3 of the Manual of procedures is attached within Annex 6 for ISO27002

⁸ Presented in part 4.4.1 of this Report

policies have not been fully developed in accordance with the ISO 27002 standard, the action plan addressing the requirements of the findings from DG NEAR audits was adopted on 19th March 2020 and the implementation (scheduled for the period 2020 – 2022) has been delayed due to external factors. AA noted that within technical assistance project Support to the Directorate of Management Structure, an IT expert has been engaged in relation to resolving Information Security Policy issues. As for recommendation from DG Agri for MS, AA considers that they are not implemented yet⁹.

Taking into consideration the importance of information system security and the staff capacity of AA, the AA determined the need for an Auditor's Expert support. According to Art.28 (Engagement of experts) to the Law on the Audit of Funds from EU Funds, as well as ISA 620 Using the work of an auditor's expert, the AA engaged an external IT expert, in order to receive adequate technical support in assessment of IA's and DMS's replies related to implementation of recommendations from the Action plan for ISO/IEC 27002 as well as in obtaining sufficient audit evidence while auditing ICFR 3b in IA.

According to Guideline No 2, section 10, the AA followed the requirements from ISA 620 Using the work of an auditor's expert as well as ISA 500 "Audit Evidence" and:

- Fulfilled Annex 18. Using the work of an auditor's expert from the AAs Manual of procedures (v.1.1.) in order to evaluate the competence, capability and objectivity of the expert,
- Provided to the expert necessary information, documentation and checklists for work,
- obtained an understanding of the work of the expert (nature, scope and objectives of expert's work) by constant and direct supervision,
- evaluated the appropriateness of expert's work (relevance and reasonableness of expert's findings and conclusions, and their consistency with audit evidence).

However, according to ISA 620 Paragraph 3, the AA has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an external expert.

The AA did not rely on the work of internal audit.

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

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

⁹Detailed follow up on DG NEAR information security systems audit was conducted by Department for audit of the program – employment, social policies, education, promotion of gender equality and development of human capacities within AA

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	Date of entry into force
				AA	EC		
All IPARD II Institutions – reconstruction and reorganization of the institutional framework	New Decree on the organisation and manner of work of the state administration was adopted at the session of the new Government, held on October 31st 2023. In that respect, each ministry had to prepare and adopt the Rulebooks on Internal Organisation and Systematisation during 4th Quarter 2023 and beginning of 2024	Substantial approved by Government on 31/10/2023	L	27/02/2024	27/02/2024	N/A	31/10/2023
Operational Agreement	Signing of Operational Agreement on the implementation of the Measure 9 Technical Assistance under IPARD II Programme (2014-2020)	Substantial n/a	M	22/11/2023	22/11/2023	n/a	20/11/2023

IPARD Programme	<p><i>Amendment of 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></p> <p><i>The proposed amendment is mainly of a financial nature including changes of financial breakdowns among the measures in order to take into account the decommitted amount from the allocation of the financial year 2017. In addition, the following technical modifications have been proposed: i) minor amendments in the targets/indicators taking into account the de-</i></p>	n/a	L	20/12/2022	n/a	15/12/2022	2 nd February 2023

	<p><i>committed budget and the ongoing crises; and ii) incorporating an exception of lease periods, bringing it down from 10 years to 5 years for the mariculture sector.</i></p>						
<p><i>IPARD Programme</i></p>	<p><i>Amendment of IPARD II 2014-2020, version 1.5 approved by European Commission on 27th July 2023 and adopted by Government of Montenegro on October 3rd 2023</i></p> <p><i>The amendment proposed is mainly of a financial nature including changes of financial breakdowns among the measures in order to consider the amount of EUR 6 024 067,25 remaining for the year 2018, after the automatic de-commitment of the amount of EUR 975 932,75. In addition, the</i></p>	<p><i>n/a</i></p>	<p><i>L</i></p>	<p><i>27/07/2023</i></p>	<p><i>n/a</i></p>	<p><i>27/7/2023</i></p>	<p><i>3/10/2023</i></p>

	<p><i>following technical modifications have been proposed: i) minor amendments in the targets/indicators taking into account the de-committed budget and the on-going crisis; and ii) changes in the list of key officials under the management and control system.</i></p>						
<p><i>IPARD Programme</i></p>	<p><i>Amendment of the IPARD II 2014-2020, version 1.6 approved by European Commission on 13rd December 2023 and adopted by Government of Montenegro on December 29th 2023</i></p> <p><i>The modifications were focused on financial allocations for 2019 and 2020 with the main goal to reallocate not</i></p>	<p><i>n/a</i></p>	<p><i>L</i></p>	<p><i>18/12/2023</i></p>	<p><i>n/a</i></p>	<p><i>13/12/2023</i></p>	<p><i>29/12/2023</i></p>

	<i>contracted/used funds from Measures 3, 7 and 9 to Measure 1 in order to ensure as much as possible funds for the implementation of the 5th public call for Measure 1.</i>						
<i>Decree</i>	<i>Adoption of the amendments to the Decree on the implementation and procedure of using funds from the EU Pre-accession Support Instrument for IPARD II Programme: - Change of Art.35a</i>	<i>n/a</i>	<i>L</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>04/08/2023</i>
<i>Decree</i>	<i>Adoption of the amendments to the Decree on the implementation and procedure of using funds from the EU Pre-accession Support Instrument for IPARD II Programme:</i>	<i>No information</i>	<i>H</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>29/12/2023</i>

	<p>- introduction of the possibility for using advance and interim payments for the same project;</p> <p>-in the case of request for interim payment, the part of the investment for which payment is requested does not have to be a functional unit, except in the case of a building;</p> <p>- in case of interim payment requests, on the spot control is carried out as needed, i.e. in case of existence doubts about the credibility of the data from the request for interim payments.</p>						
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The Following table presents key staff changes during the FY 2023:

<i>Position affected</i>	<i>Previous person</i>	<i>Position held by the previous person</i>	<i>Date of notification to</i>	<i>New person</i>	<i>Position held by the new person</i>	<i>Appointment of the new person: permanent</i>	<i>Date of the approval by NAO</i>	<i>Date of notification to</i>	<i>Impact of the change: low - L, medium – M or high - H</i>
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									(P) or temporary (T)				
		From	Until	AA	EC		From	Until			AA	EC	
NIPAC	Ms Milena Žižić	20/1/2023	11/1/2024	27/02/2024	27/02/2024	Mr Bojan Božović	18/1/2024	4-year period	T	N/A	27/02/2024	27/02/2024	M

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 approval by NAO	Date of notification to		Impact of the change: low - L, medium – M or high – H
		From	Until	AA	EC		From	Until			AA	EC	
NAO	Ms Ana Raičević	20/1/2023	2/02/2024	05/02/2024	05/02/2024	Ms Milica Adžić	8/02/2024	4-year period	T	N/A	27/02/2024	27/02/2024	H

MS

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 approval by NAO	Date of notification to		Impact of the change: low - L, medium – M or high - H
		From	Until	AA	EC		From	Until			AA	EC	
Head of the Management	Ms Anja Amidžić	20/04/2022		27/04/2022	27/04/2022	Ms Anja Amidžić	11/01/2024	acting status	T	N/A	27/02/2024	27/02/2024	L

structure													
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IA

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointment of the new person: permanent (P) or temporary (T)	Date of approval by NAO	Date of notification to		Impact of the change: low - L, medium - M or high - H
		From	Until	AA	EC		From	Until			AA	EC	
Head of the IA	Mr Vladislav Bojovic	16/09/2021	3/8/2023	01/10/2022	01/10/2022	Mr Marko Radonjić	14/09/2023	5-year period	T	N/A	5/10/2023	5/10/2023	H

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 2023, the NAO approved one exception that concerns procedures of both, DMS and IA, regarding entry into the Information system of Requests for funds (hereinafter: RfF) from IPARD agency.¹⁰ Namely, for the purpose of electronic evidence, IA and DMS used Information system developed by IA. According to previous procedures, DMS representatives were authorised to review the RfFs on one hand, and to approve/reject submitted RfFs, through the system. After the cyber-attack to the Montenegrin government IT infrastructure, the VPN connection was broken and installation of the information system outside of the IA network is no longer possible. Respecting the role of the DMS/NFD in the Information system which had been only technical by clicking the Approve/Reject button, since RfF with supporting documents are submitted in paper-based and likewise are returned to IA after decision, DMS and IA modified procedures in a way that approval/rejection of RfF through Information system may be done by the IA, based on the received DMS Notification letter for the related RfF.

Besides this exception, 7 exceptions initiated by the IA were approved by the NAO/Deputy NAO in the financial year 2023 and 1 in January 2024.

Exceptions approved in FY 2023 for IA:

1. Defining deadline for realization of investment and introducing new CL for completeness and eligibility¹¹

The first part of exemption refers to the deadline for the realization of the investment and submission of the request for payment. Since public call had been announced in February 2023 and according to the Financing Agreement eligibility period was 31st December 2023, in order to absorb funds, instead of n+2 rule (n is the date of signing the contract with the recipient), deadline for realisation of investment was amended in the Annex Contract for allocation of funds, i.e. October 1st 2023. First part of the exception applies only to the Fifth public call for Measure 3.

¹⁰ Approved by Deputy NAO on 27th April 2023

¹¹ Approved by the Deputy NAO on 6th February 2023

Second part of exception refers to merging of the Completeness checklist and Eligibility checklist within one checklist Completeness and eligibility checklist, by grouping questions. Additionally, procedures were modified regarding fulfilling of this checklist. Namely, instead of two advisors checking and answering all questions from the checklist, first control will be done by a large number of controllers, while the second control will be done only for the important questions. Supervision will be done to 100% of requests, with focus on system control, meaning that it will not analyse the documents, only whether a certain control has been carried out or not. Additionally, on a sample basis, additional supervision will be conducted in order to check sampled cases from the beginning and to examine the evidences. Changes have been made only to checklists for Measure 1 and 3.

Also, sending documentation by email and delivery in person have been introduced in the procedures for DPAP. Adequate audit trail of receipt documents in person and of sent and received emails shall be provided.

Second part of the exception implies change in the procedures.

2. Changes in procedures within Division for authorisation of payments and Division for evaluation and approval of projects¹²

First part of exception refers to change Manual of procedures version 2.3 and of the Checklist for completeness and compliance for Division for authorisation of payments (DAP) related to 4 eye principle. Namely, according to previous version, Advisor II shall fulfil checklist and after him Advisor I and after both controls performed to prepare and send the Letter for incomplete documentation. According to the modification, Advisor II shall fulfil the checklist and if it is necessary to prepare the Letter for incomplete documentation. After all controls by Advisor II, Advisor I shall perform a procedural check by checking main and critical questions which are highlighted in the checklist completeness and compliance for DAP and to check whether the Advisor II has answered in all questions. Also, sending documentation by email and delivery in person have been introduced in the procedures for DAP.

Second part of the exception refers to deleting some questions from the Checklist for completeness and compliance for DAP, since with the establishment of the DTEA, these questions fall under the responsibility of DTEA.

Third part of exception refers to modifying of the procedures for DTEA, related to opening of bids.

The procedure stipulated that on the day of opening of bids, the head of DTEA hands over the minutes and bids to the employee and after that the employee prepares the minutes in free form and hands over the bids to the recipient. However, past experience has shown that the head of the DTEA spends a large part of his time which could be used more efficiently by printing offers, specifications and everything else that bidders send by email. The exception of procedures was approved and according to it, head of DTEA

¹² Approved by the Deputy NAO on 17th May 2023

shall forward the bids to the employee by email, the day after the invitation for offers is closed and that the employee prints and prepares the offers instead of the Head of DTEA.

Also, according to exception, employee is allowed to check the submitted offers and inform head of DTEA and recipient, on the opening of the offers, whether the offers are in line with invitation for offers. The aim was to reduce the possibility of rejection of payment requests due to the errors in the procurement procedure. Certainly, it's the recipient's responsibility whether to publish new invitation for offers or not, in case employee draws their attention that the offer does not respond to invitation.

All three parts of the exception imply changes in the procedures.

3. Exception related to maximum total acceptable costs for Measure 7, sub-measure 7.1 Diversification of farms and business development¹³

IPARD II programme prescribes the maximum acceptable amount for Measure 7, sub-measure 7.1 Diversification of farms and business development, EUR 150,000.00 (without VAT). First Public call for this Measure was published in June 2021. Since introducing indexation based on official statistical prices (MONSTAT), which was recommended in the DG Agri Letter *Note for the attention of the IPARD national authorities of Albania, Montenegro, North Macedonia, Serbia AND Turkey - IPARD II – Potential solutions to avoid risk of de-commitment* (Ares (2022)4520337 dated 20th June 2022) was not feasible, taking into consideration changes in market prices, analysing collected invoices from other calls and from informal communication with suppliers, IA requested to increase the maximum amount of eligibility expenses by 35% compared to the one defined in the IPARD II Programme, i.e. $150,000.00 + 35\% = 202,500.00$ EUR. The percentage was proposed by analysing new submitted offers, which were checked according to procedures for assessment of reasonableness of prices by EVC, i.e. it presents the increase on the market from the moment of submission of the request for support to the moment of submission of new offers.

This exception applies only to the First public call for M7. AA considers that this is an exception from legal basis, IPARD II Programme, which is approved by EC and Montenegro, and therefore it should have been communicated to the EC.

4. Modification of procedures for visibility, underpayment, etc¹⁴

This exception refers to procedures for authorisation of payments and on the spot control and includes several parts:

- In order to improve the control of the "visibility" criteria during ex-post verification, some questions were added to the Checklists for on the spot-verifications-ex post.
- Some questions were added within Checklists for on the spot verifications – prior approval relating to equipment in order to make a clear distinction between the existing equipment and the one that is planned to be acquired.

¹³ Approved by the Deputy NAO on 17th May 2023

¹⁴ Approved by the Deputy NAO on 18th May 2023

- Questions and supporting documents in payment requests and checklists for payment requests have been divided depending on what type of payment request it is, interim or final, in order to simplify the procedures.
- Annex Decision for recovery of funds has been harmonised with Decree on realization and procedure of using of EU pre-accession funds regarding the deadline for recovery of funds, according to AA recommendation.
- Procedures for underpayment have been introduced in more detail in part 5.4 of the Manual of DAP.

Exception implies change in the procedures.

5. Modification of procedures for verification of reasonableness of costs¹⁵

At the moment of requesting the exception, the Reference price database (hereinafter: RPD) was updated with the offers from 4th Public Call for Measure I. However, the calculation of prices also included active prices from Third Public Call for Measure 1. The RPD is set in a way that the price calculation includes all items that are not older than two years, from the date of publication of Public call. Having in mind that Third public call was announced on November 2021 and the consequences of COVID-19 in prices of equipment, IA considered that available prices in the RPD do not show the true state of prices in the market. Consequently, exception was approved to modify the procedures in such a way that the price for specified item is extracted from RPD and if it is higher than 15% compared to the reference price, it would be sent to the evaluation committee for additional re-assessment in order to determine the reality of the price.

Exception implies change in the procedures.

6. Modification of procedures related to Evaluation Committee¹⁶

Taking into consideration consequences of the COVID-19 in the market prices as well as results of the external audit of the Reference price database, which states that the price increase amounts 23% in relation to the prices entered in the RPD from the previous public call, exception was approved stating that all prices that are up to 10% greater than EVC market research, shall be acceptable. Meaning that if different prices have been submitted for same item, for two recipients, both prices will be accepted if the deviation is up to 10% of the price found by EVC market research.

Exception implies change in the procedures.

7. Exception related to ex-post controls¹⁷

Taking into consideration the short period for administrative and on the spot control for applications from the fifth public call for measure 1, exception was requested in order to postpone the conducting of ex-post

¹⁵ Approved by the Deputy NAO on 7th June 2023

¹⁶ Approved by the Deputy NAO on 13th October 2023

¹⁷ Approved by Deputy NAO on 18th October 2023

controls for other public calls, for a couple of months (not more than 6) in order to prioritise processing of applications received under fifth public call M1.

First part of exception does not imply change in the procedures.

Second part of exception refers to simplifying the checklist for ex-post control regarding the construction. Namely, during ex-post control there is no need to check the amount of material used for building the construction, only in cases specified by an order from the head of Division for on the spot control.

Second part of exception implies change in the procedures.

Exception approved In January 2024 for IA:

1. Modification of procedures related to on the spot check and ex-post controls. ¹⁸

First part of exception is related to modification of on the spot check procedures, in a way that after supervision by the Head of DOSC, possibility of correction of the Report from on the spot has been introduced. Namely, during the field work, controllers have to add up all the amounts and it often happens that mistakes are made in the calculations. In case of correction of the report, recipient shall be informed and has the possibility to declare on the content of the report.

Second part of the exception relates to ex-post controls. Namely, according to AA finding, the IA has changed the Methodology for analysis of risk for ex-post controls, in a way that in the first year after payment, there shall be no ex post controls, and that with each subsequent year percentage of checks shall increase.

Both parts of the exception imply changes in the procedures.

All above listed procedural modifications and exceptions are recorded and approved by the NAO/Deputy NAO and aim to enhance absorption of available funds for support, reduce the very high risk of de-commitment, increase the efficiency based on gained experience and accordingly to contribute to successful implementation of IPARD tasks.

According to Guideline No 2, the AA should indicate whether the exceptions have been communicated to the Commission services. Based on communication with IA/DMS, and by analyzing formalized procedures, the AA notes that there are no defined procedures to inform the EC about approved exceptions by the NAO. In MoP for DMS, part Internal Control system it is stated "In accordance with FWA, Articles 11, 12, Annex A, Clause 2, 4 (i), if the exceptions are related to any substantial changes in the management and control system, NAO shall immediately notify the Commission, with a copy to the Audit Authority." However, according to NAOs assessment, none of above-described exceptions is related to substantial changes in the management and control system.

¹⁸ Approved by the Deputy NAO on January 204th 2024

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 2023-2025.

However, besides ICFRs presented in the point 5.3 of the Audit Strategy 2023-2025, which were obtained by risk assessment, in system audit for FY 2023, (performed from May 2023 to January 2024) the AA also included the ICFR 4(a, b, c) Information and communication in the IPARD Agency.

The reason for the subsequent inclusion of ICFR 4 (a, b, c) in IA in the scope of system audit is the issued Reservation in Annual Management Declaration for FY 2022 regarding information and communication in IPARD Agency.

Additionally, within system audit, AA conducted test of design (ICFR 3(c)) and compliance testing of ex-post controls conducted by IA.

As regards sampling method used for the audit of operations, there were no changes. Taking into consideration the population size, following the conditions presented in the Guideline No 2, AA used non-statistical sampling.

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 No 2, in order to assess the Internal Control Systems (ICS) of the bodies constituting management and control system for IPARD II programme. System audit was carried out by auditors of the Department for audit of the program of agriculture and rural development. Audit work is conducted based on procedures described in AA Manual of procedures for IPARD Programme, version 1.1, which was adopted in 27th June 2023. The list of the AA team members is presented in the table below.

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	<i>Rina Mučaj Demirović</i>	<i>Authorized Auditor / Head of Department for audit of the program of agricultural and rural development</i>	<i>10 years and 9 months</i>	<i>10 years and 9 months</i>	<i>P</i>	<i>Certified auditor/ State auditor</i>	<i>Preparation of engagement plan. Coordination, supervision, review, and support. Final report</i>
	<i>Marko Tomčić</i>	<i>Authorized Auditor</i>	<i>5 years and 11 months</i>	<i>5 years and 11 months</i>	<i>P</i>	<i>Certified auditor/ State auditor</i>	<i>ICFR 3a, 5a,5b, 3b</i>
	<i>Marija Perović</i>	<i>Authorized Auditor</i>	<i>7 years and 3 months</i>	<i>7 years and 3 months</i>	<i>P</i>	<i>Certified auditor/ State auditor</i>	<i>ICFR 4 a, 4b, 4c, 1d, 3a, 3b, 3c</i>
	<i>Maja Klikovac</i>	<i>Authorized Auditor</i>	<i>3 years 5 months</i>	<i>3 years 5 months</i>	<i>P</i>	<i>Certified auditor/ State auditor</i>	<i>2c, 2d, 3a, 3b</i>
	<i>Luka Miranović</i>	<i>Junior Auditor</i>	<i>2 year and 10 months</i>	<i>2 year and 10 months</i>	<i>P</i>	<i>N/A</i>	<i>1b, 1d, 3a, 3b</i>

According to Art.28 (Engagement of experts) to the Law on the Audit of Funds from European Union Funds, as well as International Standard on Auditing (ISA) 620 Using the work of an auditor's expert, the AA engaged an external IT expert, in order to receive adequate technical support in assessment of IPARD Agency's and Management Structure's replies within Action plan related to implementation of ISO/IEC 27002 (DG AGRI Letter Ref. Ares (2023)5251704 from 28/07/2023), as well as to check security control activities, especially the consequences of cyber-attack from August 2022 and current situation. Additionally, in period 22-26 January 2024, AA received expert support through TAIEX service and part of the expert mission was related to assessment of the progress in implementation of recommendations related to ISO/IEC 27002.

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)
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01.01.2023-31.12.2023 3. i.e. FY 2023	Programme for Agriculture and Rural development of Montenegro - IPARD II No CCI: 2014ME06I4NP001	Audit Authority of Montenegro	Management Structure (NF and NAOSO), Operating Structure (IA and MA)	May – January 2024	System Audit encompassed Management structure (National Fund and NAO Support Office) and Operating structure (IPARD Agency and Managing Authority) and the following audit areas were examined: •Supervision by management of tasks delegated to subordinates (ICFR 1b) •Staff planning, recruitment, retention, training and appraisal (ICFR 1d) •Fraud risk (ICFR 2c) •Identification and assessment of changes affecting the system of internal controls (ICFR 2d) •Selection and development of control activities (ICFR 3a) •Security control activities (ICFR 3b) •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) •On-going and specific monitoring (ICFR 5a) •Assessment, recording and communication of internal control deficiencies (ICFR 5b)	1. Deficiencies in design of procedures and conducting ex-post checks 2. Deficiencies in Security control 3. Shortcomings in public calls and supporting documents	/	/	1.Open 2.Open 3.Closed ¹⁹
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¹⁹ Closed following the contradictory procedure with the auditee

During reference period system audit was performed according to the plan and ICFR's presented in the Audit strategy 2023-2025, which includes:

1) Test of procedures

The audit was performed using the methodology prescribed in Manual of procedures for IPARD v.1.1 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

From the beginning of IPARD II Programme, the IPARD Agency has published 11 public calls of the IPARD II Programme 2014-2020:

- five 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).

The compliance testing was performed using the methodology prescribed in Manual of procedures for IPARD v.1.1 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.

For purpose of compliance testing, the AA used dual-purpose testing. In line with the DG AGRI Guideline no 2, compliance testing should be carried out on at least 10 transactions for each of the populations defined. Using IDEA software, AA randomly chose three samples for substantive testing of expenditure declared to the EC in Q1 and Q2 (one sample), Q3 as well as Q4 of financial year 2023. In order to cover a variety of transactions, measures and procedures, using professional judgment, AA selected transactions for compliance testing from samples chosen for substantive testing, i.e. 6 transactions from sample of declared expenditure in Q1 and Q2, 3 transactions from sample regarding Q3 and 3 transactions from sample of declared expenditure in the Q4 of FY 2023.

Transactions on which compliance testing has been carried out are presented in the table below:

No.	Application ID	Contract reference	Declared expenditure			
			Measure	Quarter	EU part	National part
	1	2	3	4	5	
1	21-03-1-0045	09-908/21-15133/14	1	Q2	64.061,59 €	21.353,86 €
2	22-04-01-0061	09-908/22-6740/17	1	Q2	28.105,60 €	9.368,54 €
3	22-04-3-0023	09-908/22-3211/14	3	Q1	337.083,19 €	112.361,07 €
4	21-03-1-0043	09-908/21-15129/17	1	Q1	5.347,93 €	1.782,65 €
5	21-04-1-0018	09-908/22-6395/13	1	Q1	6.352,50 €	2.117,50 €
6	22-04-1-0076	09-908/22-6766/42	1	Q2	46.706,18 €	15.568,73 €
7	21-03-1-0009	09-908/21-15025/26	1	Q3	16.408,48 €	5.469,49 €
8	22-04-3-0003	09-908/22-3210/29	3	Q3	49.184,40 €	16.394,80 €
9	21-03-1-0010	09-908/21-15132/27	1	Q3	22.644,10 €	7.548,04 €
10	21-03-1-0067	09-908/22-28/18	1	Q4	15.160,51 €	5.053,50 €
11	23-05-3-0009	09-908/23-1889/17	3	Q4	29.451,88 €	9.817,30 €
12	23-05-3-0027	09-908/23-1875/34	3	Q4	64.029,49 €	21.343,16 €
Total:					684.535,85 €	228.178,64 €

The outcome of the compliance testing of operational transactions is summarized in the Final reports of audit of operations related to the Q1 and Q2, Q3 and Q4 of FY 2023. During compliance testing of operational transactions, the AA identified 9 findings, out of which, 2 findings with financial impact (error). Since AA uses dual-purpose testing and according to Guideline No.2 results of compliance testing - are presented in part 5.8.1 of this Report.

As part of the audit for FY 2023, the AA also performed verification of IPARD Agency's ex-post controls on investment operations which includes verifications of respecting of commitments laid down in Article 33(6) of the IPARD II programme. The AA also verified whether the requirements defined in Article 14 of the Sectoral Agreement are respected by the IPARD Agency. For the purpose of this verification, the AA performed test of procedures as well as compliance testing on 10 projects which were sampled from the population consisting of all operational transactions that were subject of ex-post controls from the beginning of implementation of IPARD II programme. Population of ex-posts consisted of 167 transactions (158 from measure 1 and 9 from measure 3). In line with the DG AGRI guideline no 2 and by using IDEA software, the AA randomly sampled 10 projects for compliance testing from Register of controlled

executed case files ex-post DP-DOSCRDM-00-01. However, since the extracted sample included only one project from measure 3, based on professional judgement, the AA considered that in this specific situation the overall population should be stratified in sub-populations for Measures 1 and 3 having a higher degree of homogeneity. Accordingly, based on professional judgement, using IDEA software, AA sampled 7 projects from population for M 1 and 3 from the population for M 3. As a result of audit work, AA identified some deficiencies related to procedures and conducting ex-post controls, which are presented in Finding Deficiencies in design of procedures and conducting ex-post checks, in part 4.4.1 to this Report.

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 2023-2025, the Audit Authority performed a detailed risk assessment to determine the bodies and priority processes for 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, AA identified processes and ICFRs within DMS (NAOSO and NFD) and Operating Structure (IPARD Agency and Managing authority) 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 non-operational transactions, according to Guideline No 2, AA conducted substantive and compliance testing of irregularities/debts, advances as well as of transactions related to the IPARD Euro account. Since AA conducted dual purpose testing, 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 MS and OS, 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 the supervision by management of tasks delegated to subordinates;
- The AA verified adequacy of staff actually in place for performing delegated tasks as well as whether organizational structure is adequate for the efficient and effective implementation of all tasks and responsibilities;
- The AA verified whether potential for fraud and irregularities is considered when assessing risks to the achievement of objectives;
- The AA verified the implementation of control activities: contracting, payment, budgetary, reconciliation procedures, etc.;
- AA verified the reasonableness of the costs
- The AA verified the internal control system for calculation of the economic viability of recipient
- The AA verified whether management identifies and assesses important changes, both internal and external, that can affect the effectiveness of internal controls and have impact on the organisation's achievement of objectives;
- The AA verified whether adequate security procedures (IT and otherwise) that assets and data are kept secure from unauthorized interference and physical damage as well as whether appropriate access rights are in place both in terms of physical access and electronic access at all levels;
- The AA verified IPARD Agency's ex-post controls on investment operations which includes verifications of respecting of commitments laid down in Article 33(6) of the IPARD II programme;
- 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 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 IA and in the media 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 whether ensured processes are in place to communicate required information in a relevant format and timely to external parties, then inbound communication channels to allow input from external parties providing all levels of organisation with relevant information and ensuring that relevant information from external parties, including the European Commission, the European Court of Auditors, etc., reaches the relevant levels of the organisation;
- The AA verified whether 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. The AA verified whether processes are in place to communicate required information to enable all staff, including management, to understand and carry out their internal control responsibilities

- The AA verified appropriate assurance role from NAOSO including timely preparation and issuance of the Annual management declaration.

When it comes to the (ICFR) 3(a) Selection and development of control activities, AA conducted compliance testing (test of controls) in order to express an opinion on the effectiveness of the ICS, i.e. to verify how the controls have been able to detect and correct errors before a commitment has been entered into or a payment has been made.

For purpose of compliance testing, the AA used dual-purpose testing. In line with the DG AGRI Guideline no 2, compliance testing should be carried out on at least 10 transactions for each of the populations defined. Using IDEA software, AA randomly chose three samples for substantive testing of expenditure declared to the EC in Q1 and Q2 (one sample), Q3 as well as Q4 of financial year 2023. In order to cover a variety of transactions, measures and procedures, using professional judgment, AA selected transactions for compliance testing from samples chosen for substantive testing, i.e. 6 transactions from sample of declared expenditure in Q1 and Q2, 3 transactions from sample regarding Q3 and 3 transactions from sample of declared expenditure in the Q4 of FY 2023, in total 12 transactions in amount of 684.535,85 € (EU part). Out of 12 transactions, 8 refer to Measure 1 (5 final payments and 3 interim payment) and 4 to Measure 3 (final payments).

List of the transactions reviewed for the compliance testing of the operational transactions²⁰ 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	09-908/21-15133/14	21-03-1-0045	1	Y	Y	Y	Y	N/A	N/A	64.061,59 €		Y
Payment N° 2	09-908/22-6740/17	22-04-01-0061	1	Y	Y	Y	Y	N/A	N/A	28.105,60 €		Y
Payment N° 3	09-908/22-3211/14	22-04-3-0023	3	Y	Y	Y	Y	N/A	N/A	337.083,19 €	3277,50*	Y
Payment N° 4	09-908/21-15129/17	21-03-1-0043	1	Y	Y	Y	Y	N/A	N/A	5.347,93 €		Y
Payment N° 5	09-908/22-6395/13	21-04-1-0018	1	Y	Y	Y	Y	N/A	N/A	6.352,50 €		Y
Payment N° 6	09-908/22-6766/42	22-04-1-0076	1	Y	Y	Y	Y	N/A	N/A	46.706,18 €		Y
Payment N° 7	09-908/21-15025/26	21-03-1-0009	1	Y	Y	Y	Y	N/A	N/A	16.408,48 €	1178,42**	Y
Payment N° 8	09-908/22-3210/29	22-04-3-0003	3	Y	Y	Y	Y	N/A	N/A	49.184,40 €	2743,80**	Y
Payment N° 9	09-908/21-15132/27	21-03-1-0010	1	Y	Y	Y	Y	N/A	N/A	22.644,10 €		Y
Payment N° 10	09-908/22-28/18	21-03-1-0067	1	Y	Y	Y	Y	N/A	N/A	15.160,51 €	0,28*	Y
Payment N° 11	09-908/23-1889/17	23-05-3-0009	3	Y	Y	Y	Y	N/A	N/A	28.451,88 €		Y
Payment N° 12	09-908/23-1875/14	23-05-3-0027	3	Y	Y	Y	Y	N/A	N/A	64.029,49 €		Y

* Error detected as result of compliance testing
** Error detected as result of substantive testing

The list of the transactions reviewed for the compliance testing of the non-operational transactions are presented in Annex 3²¹ to this Report.

²⁰ Annex 1 to the Guideline No 3

²¹ Annex 2 to the Guideline No 3

Number of operational transactions subject to compliance testing is presented in the table below:

Procedure	No of transactions tested	Findings (if any)
Administrative controls	12	Section 5.8.1
On-the-spot controls	12	Section 5.8.1
Payment procedures	12	Section 5.8.1
Accounting procedures	12	There were no findings
Advances/securities	n/a	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 recommendations 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”, AA assessed as “Works partially”, while control activities “Validation and authorisation –on the spot control”, AA assessed as “Works” as presented below. The AA identified certain deficiencies regarding design of procedures and conducting of ex-post controls by IA as well as deficiencies in security control, especially after cyber-attack. Mentioned deficiencies are presented in the findings below.

Further, the AA identified deficiencies which are related to the process of assessing of reasonableness of costs, control failure related to checking the rule of origin, deficiencies in authorisation of request for support and contracting, in authorisation of payment requests, specific situations for which rules for VAT exception do not apply, etc. Since AA used dual purpose testing, findings related to compliance testing are presented in section 5.8.1 of this Report

Assessment for the IPARD Agency:

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

Findings:1. Deficiencies in security control²²

ICFR 3 (b) Security control activities

-ensuring adequate security procedures (IT and otherwise) that assets and data are kept secure from unauthorized interference and physical damage

-ensuring that appropriate access rights are in place both in terms of physical access and electronic access at all levels

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

²² Deficiency related to Control activities/ IT security for each component procedure of MATRIX-Assessment of the ICF.

Body/-ies concerned by the finding: IPARD Agency

In the previous period, all computers within the IPARD Agency (hereinafter: IA) had been joined to the gov.me domain, and their administration was the responsibility of the Ministry of Public Administration (the Ministry responsible for overall security, administration and domain, hereinafter: Ministry). However, in August 2022, the public administration suffered a significant cyber-attack. After the event, by raising the local domain (ap.local), all computers within IA were formatted with the new OS and joined the new domain, with which IA took over their administration.

Although the Information System of the IA is physically separated from the Ministry, the IA website, e-mails and certain services, as well as Internet access remained directed towards the information system of the Ministry. However, Audit Authority (hereinafter: AA) noted that during cyber-attack, since IA website and e-mails were unavailable, there were delays in the publication of public invitations and invitations to offers.

During system audit, the AA noted significant improvements in Information system security following the cyber-attack, however, the auditors also identified the following deficiencies:

- The operating systems on the application and database servers are not upgraded to the latest version (e.g. the application server has Microsoft Windows Server 2012 R2 Standard, version: 6.3.9600 Build 9600 for this OS EOL is 10th October 2023),
- There is no maintenance agreement or service level agreement for the application servers,
- Security patches of VMware ESXi hypervisor and vCenter server after the cyber-attack was not carried out (VCSA is on version 6.7.0.50000, as of 2021-09-21, VMware has officially declared vSphere 6.7. x (ESXi 6.7) as End of General Support starting from 15th October 2022)
- Although certain measures are in place, IS vulnerability assessment and penetration testing have not been performed until now, which gained importance after the event,
- the firmware was also not updated, it remained on the versions on which it was initially installed, etc.

As regards segregation of duties between the information security officer (ISO) and Head of IT department, AA noted that according to the Rulebook on internal organisation and systematisation, ISO is defined as a separate position, responsible to the Head of IA. The position is filled and the ISO operates in accordance with the employment decision. However, AA determined that the IA has not updated the Job descriptions, where it still states that ISO reports to the Head of IT Department, and the Substitution Plan where it is envisaged that ISO can be substituted by the Head of IT department.

Additionally, AA noted that IA does not fulfil some of the work responsibilities derived from version 2.3 of the procedures. Namely, ISO does not prepare the quarterly report on the information security and does not present the security controls for minimize potential risks, which is one of the responsibilities defined in the Manual of procedures, v.2.3. Further, annexes such as DP-IT-00-24 - Monitoring table, DP-IT-00-25 - Maintenance - IT sector, DP-IT-00-26 - Maintenance – Support, DP-IT-00-16-Technical Acceptance, etc. are not fulfilled regularly or are not fulfilled at all.

AA also noted that formalised version of procedures 2.3 does not include all requirements which are necessary for achieving and maintaining compliance with ISO 27002 and thus, additional policies, procedures, instructions remain to be prepared.

Recommendation:

-Cyber security measures should be applied on all platforms, applied in the corporate environment and in the ecosystem created in the cloud, bearing in mind that security must be adapted to the needs of operations. Therefore, among others, AA recommends IA to:

- Upgrade the operating systems on the application and database servers,
- Ensure maintenance agreement or service level agreement for the application servers,
- Regularly implement and update security patches,
- Perform vulnerability assessment and penetration testing, in order to identify, quantify and prioritize the vulnerabilities in the system as well as to evaluate the security of system,
- Regularly update firmware on servers, storage devices, etc.

-IA has an official version of procedures, Manual for IT, v.2.3. and AA considers that IA should operate according to it. Therefore, AA recommends IA to prepare appropriate documents in accordance with Rulebook on internal organisation and systematisation and to fulfil work responsibilities arising from formalized procedures (v.2.3).

-AA considers that IA Manual of procedures version 2.3 (Access control policy, Information Security Policy, Manual for IT sector and Physical Control) which has been adopted in September 2021 needs updating and additional complementation to align with ISO 27002 requirements.

AA follow up status: Open

Since AA used dual purpose testing, findings related to compliance testing are presented in section 5.8.1 of this Report as follows:

- Inadequate controls regarding rule of origin under application ID No. 22-04-3-0023 (Contract ref. No. 09-908/22-3211/14),
- Inadequate controls during authorization of Payment request under application ID No. 22-04-3-0023 (Contract ref. No. 09-908/22-3211/14),
- Non-compliance of IA's procedures with Decree for implementation of measures regarding interim and advance payments
- Deficiencies in process of contracting and procurement procedure related to recipient with application ID 22-04-3-003 / contract reference 09-908/22-3210/29
- Absence of questions related to the additional public aid within eligibility check list for Measure 1
- Inadequate code of eligible expenditure under application ID No. 21-03-1-0009, Contract no. 09-908/21-15025/26
- Undefined procedure related to VAT exemption in specific situations
- Administrative error regarding recipient with ID No. 21-03-1-0067 (Contract ref. No. 09-90822-2818)

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 2.00.

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

Findings:

1) Deficiencies in design of procedures and conducting ex-post checks

ICFR 3. Control activities

(a) Selection and development of control activities – ensuring that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organisation

(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

Level of priority: Major

Body/-ies concerned by the finding: IPARD Agency

According to the Art. 14, paragraph (3) and (4) of Sectoral Agreement The ex-post verifications shall be carried out within five years of the date of final payment to the recipient. All investments shall be checked at least once during the five-year period. The ex-post verifications, carried out throughout the five-year period, shall be based on an analysis of the risks and financial impact of different operations, groups of operations or measures.

Audit Authority conducted detailed test of design and compliance testing of ex-post controls by IA. Some deficiencies in design of procedures and conducting of controls have been identified, which can impact efficiency and effectiveness of controls by controllers and verifications by auditors.

Namely, according to the Manual for work in the Department for on-the-spot control for rural development measures, Annex DP-DOSCRDM-03 - 01 Methodology for performing analysis of risk for conducting ex-post on the spot verification:

- During the first year after payment at least 50% of paid projects in previous year will be checked.
- During the second year at least 25% of the paid projects which were not controlled in the first year of ex-post verification will be checked.
- During the third year at least 13% of the paid projects which were not controlled in the first and second year of ex-post verification will be checked,
- During the fourth year at least 7% of the paid projects which were not controlled in the first, second and third year of ex-post verification will be checked.
- During the fifth year the rest of all paid projects which were not controlled in the previous years of ex-post verification will be checked (recipients which have a lower risk score, recipients which haven't been controlled in previous year for some reasons)

In audited sample of 10 projects, for 6 of them, AA determined that ex-post checks were carried out in period within one year after payment.

AA considers that conducting ex-post checks in percentage of 50% of paid projects in the first year after payment is not appropriate, because the longer the time between the payment and the ex-post control is, the bigger is the risk that the recipient will cease to exist or that the documents subject to control will not be available. Taking into consideration that contracts signed with recipients remain in force five years after the day of the final payment made from the IA, AA even considers that in the first year after payment, there should be no ex-post at all and that approach should be in reverse, i.e. a higher percentage of ex-post controls in the later years of monitoring.

Further, by insight into checklists for ex-post control, MoP v.2.3. Annexes Check list DP-DOSCRDM-02-03/Check list DP-DOSCRDM-02-08 / Check list DP-DOSCRDM-02-12, AA noted that they are as extensive as the ones used for on the spot check before payment. Before payment, IA should check all technical specifications and measure every item and service for which recipient has received support.

Whereas, when it comes to ex-post controls, if the subject of investment is, for example, construction of a building, AA considers it an unnecessary waste of time and resources to measure the surfaces of the entire building, doors, windows, etc. Instead, controllers should compare pictures before the payment and the current state encountered on the ground during the ex-post control, and focus on whether the investment is still in the reported location, whether it is still in the ownership of the recipient, whether it is operational and operating and whether there have been significant changes in relation to the contract.

Recommendation:

AA recommends IA:

1. To update the procedures in a way that in the first year after payment, there will be no ex post controls, and that with each subsequent year percentage of checks shall increase.
2. In order to ensure more reliability that the investment is still in use according to its intended purpose, to re-perform ex-post controls for all investments they already performed it in the first year after payment.
3. To simplify checklists and to skip over checking everything that is logical that over time could not have changed (walls of the building, doors, the main construction book etc.), but also to ensure that they have covered all important facts to confirm the purpose of the ex post controls, i.e. that the investment is maintained and operating as intended, for a period of 5 years after the final payment.

AA follow up status:

The Audit Authority appreciates the steps taken by the IA to improve and simplify the procedures, following the presentation of deficiencies related to ex-post during audit work by AA. As regards given recommendations:

1. AA considers first part of finding as **closed** since the exception of procedures related to Methodology for performing analysis of risk for conducting ex-post controls has been adopted,
2. In order to ensure more reliability that the investment is still in use according to its intended purpose, AA remains of the opinion that, within monitoring period, IA should re-perform ex-post controls for investments they have already performed it in the first year after payment. Accordingly, the implementation of the recommendation will be further monitored,
3. As for the third recommendation, AA considers that the checklists for ex-post control should be further simplified. Approved exception refers only to part of construction. Therefore, implementation of the recommendation will be further monitored.

Since AA used dual purpose testing, findings related to compliance testing are presented in section 5.8.1 of this Report as follows:

- **Inconsistency in the relevant documents and on the spot under application ID No. 22-04-1-0076 (Contract ref. No. 09-908/22-6766/19)**

Assessment:

Considering findings described above and in the section 5.8.1, the AA concluded that all risks are addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently the AA assessed this ICFR as "Works" with the score 3.00.

- **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 4.00.

- **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 4.00.

- **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 4.00.

- **Control activities: Debts management**

Findings:

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

- 1) Deficiencies in compiling Debtors ledger

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 3.00.

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 concludes that 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 3.14.

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 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 3.00.

- **Control activities: Paying functions – Authorisation and control 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 4.00.

- **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 3.00.

- **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 3.00.

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

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 4.00.

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 with some deficiencies having a minor impact on the functioning of the key requirements and consequently the AA assessed this ICFR as "Works well" with the score 3.55.

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

During compliance testing, which is integral part of system audit, the AA identified two findings with financial impact. Since AA uses dual-purpose testing and according to Guideline No.2 results of compliance testing are presented in part 5.8.1 of this Report. Findings from compliance testing having financial impact are:

1. Inadequate controls regarding rule of origin under application ID No. 22-04-3-0023 (Contract ref. No. 09-908/22-3211/14) – AA identified inadequate controls related to checking the rule of origin which resulted in wrongly authorizing expenditure related to the item which originates from an ineligible country for support, according to the FWA and Decree

Financial correction:

Amount of support 4.370,00 EUR (8.740,00 EUR*50% (support)=4.370,00 EUR, **EU part 3.277,50 EUR** and national part 1.092,50 EUR).

2. Administrative error regarding recipient with ID No. 21-03-1-0067 (Contract ref. No. 09-90822-2818) – AA identified that IA advisors, although noticed the difference, authorized invoiced amount, instead of actual paid amount to the supplier.

Financial correction:

0,35 EUR (0,54 EUR * 65% (public support) =0,35 EUR, **EU part 0,26 EUR**

AA considers that there were no findings of systematic character.

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 2022 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 matrices²³:

IPARD Agency

MATRIX - Assessment of the ICF (IPARD AGENCY) - IN CASE OF NO DELEGATED BODIES AND YES ADVANCES																							
Assessment Component Procedure	Weighting / Scoring	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		S	T at 5%	Control activities		IT Security		Monitoring		Internal audit	W	T	Weighted total				
		S	T at 15%	S	T at 5%	S	T at 5%	S	T at 5%	S	T at 50%	S	T at 10%	S	T at 5%	S	T at 5%	S	T at 5%	W	T	Weighted total	
Operations	Validation and authorization	Administrative	3	0.45	2	0.10			3	0.15	2	1.00	2	0.20	2	0.10	3	0.15	3	0.15	20%	2.00	0.40
		On-the-spot controls	3	0.45	2	0.10			3	0.15	3	1.50	2	0.20	2	0.10	3	0.15	3	0.15	20%	2.80	0.56
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
LEGEND:																			General conclusion		3.00		
																			Assessment of ICF		works (medium impact)		
																			1 to 1.5 = not working				
																			1.51 to 2.5 = working partially (significant impact)				
																			2.51 to 3.5 = works (medium impact)				
																			3.51 above = works well (minor impact)				

Overall conclusion on the ICS in IPARD Agency, based on the results of system audit, is Works (medium impact) with the score of 3.00. Increase on the overall conclusion is due to the higher score for pair Validation and authorisation-On the spot controls/Control activities, from 2 to 3. During audit work, AA noticed improvement in on the spot controls and consequently, less deficiencies were identified in comparison to previous years.

National Fund

Matrices -NF

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	2	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	3	2	4	3	
	Treasury	4	4	n/a	4	4	2	4	4	

Overall average	3,342857143
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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)

²³ Presented in Annex 1 to this Report

Overall conclusion on the ICS in National Fund, based on the results of system audit, is Works (medium impact) with the score of 3.34.

NAOSO

Matrices -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 frame work	
	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	3	2	3	3	

Overall average	3,142857143
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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 NAO Support Office, based on the results of system audit, is Works (medium impact) with the score of 3.14.

Managing Authority

ANNEX 1 - Matrices - MA Template

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	3	n/a	3
	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	3,555555556
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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 3.55.

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 audit of operations.

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	Rina Mučaj Demirović	Authorized Auditor / Head of Department for audit of the program of agricultural and rural development	10 years and 9 months	10 years and 9 months	P	Certified auditor/ State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Marko Tomčić	Authorized Auditor	5 years and 11 months	5 years and 11 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Maja Klikovac	Authorized Auditor	3 years and 5 months	3 years and 5 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Marija Perović	Authorized Auditor	7 years and 3 months	7 years and 3 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Luka Miranović	Junior Auditor	2 year and 10 months	2 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 2023. There were 112 final payments and 14 interim payments from IPARD Agency to recipients, in total gross amount of 7.740.173,39 € (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 2023, the second sample was drawn from Declaration of third quarter (D1 for Q3) and third sample was drawn at the beginning of the year 2024 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 126 final and interim payments as well as overall assessment of ICS of the IPARD Agency assessed as “Works”, the AA determined that the minimum sample size should be 20%, i.e. 25,2, and accordingly, AA sampled 26 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 2023, total of 38 final payments and 6 interim payments in amount of 1,682,882.84 € (EU part). The AA, using IDEA software, randomly chose 9 payments (6 final and 3 interim) in amount of 510.658,37 € (EU part). Total number of sampled transactions presents 20,45 % of population while amount of sampled transactions presents 30,34 % 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
1	21-03-1-0062	09-908/22-33/21	Final	1	Q1	12.936,26 €	4.312,09 €
2	21-03-1-0045	09-908/21-15133/14	Final	1	Q2	64.061,59 €	21.353,86 €
3	21-03-1-0007	09-908/21-15001/23	Final	1	Q2	4.430,67 €	1.476,89 €
4	22-04-01-0061	09-908/22-6740/17	Final	1	Q2	28.105,60 €	9.368,54 €
5	21-03-1-0072	09.908/22-107/17	Final	1	Q1	5.634,45 €	1.878,15 €
6	22-04-3-0023	09-908/22-3211/14	Final	3	Q1	337.083,19 €	112.361,07 €
7	21-03-1-0043	09-908/21-15129/17	Interim	1	Q1	5.347,93 €	1.782,65 €
8	21-04-1-0018	09-908/22-6395/13	Interim	1	Q1	6.352,50 €	2.117,50 €
9	22-04-1-0076	09-908/22-6766/42	Interim	1	Q2	46.706,18 €	15.568,73 €
Total						510.658,37 €	170.219,48 €

Second sample was drawn from population which contains expenditures declared (list of payments) in Q3 of FY 2023, total of 28 final payments and 2 interim payments in amount of 1.633.077,84 € (EU part). The AA, using IDEA software, randomly chose 6 payments (5 final and 1 interim) in amount of 282.062,67 (EU part) €. Total number of sampled transactions presents 20,00 % of population while amount of sampled transactions presents 17,27 % 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
1	21-03-1-0009	09-908/21-15025/26	Final	1	Q3	16.408,48 €	5.469,49 €
2	22-04-3-0003	09-908/22-3210/29	Final	3	Q3	49.184,40 €	16.394,80 €
3	21-03-1-0010	09-908/21-15132/27	Final	1	Q3	22.644,10 €	7.548,04 €
4	22-04-3-0006	09-908/22-3216/36	Interim	3	Q3	57.375,00 €	19.125,00 €
5	21-03-1-0011	09-908/22-13/14	Final	1	Q3	15.837,61 €	5.279,21 €
6	21-03-1-0025	09-908/22-17/46	Final	1	Q3	120.613,08 €	40.204,36 €
Total						282.062,67 €	94.020,90 €

Third sample was drawn from population which contains expenditures declared (list of payments) in Q4 of FY 2023, total of 52 payments (46 final and 6 interim) in amount of 4.424.212,71 €. The AA, using IDEA software, randomly chose 11 payments (10 final and 1 interim) in amount of 335.412,73 €. Total number of sampled transactions presents 21,15 % of population while amount of sampled transactions presents 7,58 % 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
1	23-05-3-0010	09-908/23-1905/17	Interim	3	Q4	23.800,50 €	7.933,50 €
2	21-03-1-0017	09-908/22-22/20	Final	3	Q4	45.410,51 €	15.136,84 €

3	23-05-3-0027	09-908/23-1875/34	Final	3	Q4	64.029,49 €	21.343,16 €
4	23-05-3-0013	09-908/23-1893/24	Final	3	Q4	18.446,91 €	6.148,97 €
5	23-05-3-0037	09-908/23-2025/27	Final	3	Q4	8.890,31 €	2.963,44 €
6	21-03-1-0095	09-908/22-161/27	Final	1	Q4	25.534,53 €	8.511,51 €
7	22-04-1-0076	09-908/22-6766/42	Final	1	Q4	21.157,50 €	7.052,50 €
8	21-03-1-0039	09-908/21-15115/23	Final	1	Q4	24.507,79 €	8.169,27 €
9	23-05-3-0009	09-908/23-1889/17	Final	3	Q4	29.451,88 €	9.817,30 €
10	21-03-1-0067	09-908/22-28/18	Final	1	Q4	15.160,51 €	5.053,50 €
11	23-05-3-0008	09-908/23-1908/23	Final	3	Q4	59.022,80 €	19.674,27 €
Total						335.412,73 €	111.804,26 €

When it comes to the number of final and interim payments, out of 126 payments, the AA chose 26 payments for substantive testing which presents 20,63 % of total population. When it comes to the audited value, out of total amount of final and interim payments of 7.740.173,39 € (EU part), the AA by substantive testing covered 1.128.133,77 € which presents 15,57 % 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 level²⁴, 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 2023, amounted to 173.620,77 €.

All sampled transactions (26 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 requirements per call for applications of each sampled project.

²⁴ For the purpose of error evaluation, the AA used only EU part of gross expenditures.

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.

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.

Furthermore, according to Guideline 2, section 6.4, the AA conducted compliance testing through dual purpose testing (substantive and compliance testing), i.e. based on three samples of substantive testing. Namely, in line with the DG AGRI guideline no 2, compliance testing should be carried out on at least 10 transactions for each of the populations defined. Considering that compliance testing should cover entire FY 2023, using professional judgment, the AA selected 6 transactions (out of 9 sampled for substantive testing) from the expenditures declared in Q1 and Q2 of FY 2023, 3 transactions (out of 6 sampled for substantive testing) from the expenditures declared in Q3 of FY 2023 and 3 transactions (out of 11 sampled for substantive testing) from the expenditures declared in Q4 of FY 2023. According to the auditors professional judgement, the sample was suitable for compliance testing since it covered a variety of transactions respecting the principle of diversity (coverage) which implies all measures (1 and 3), different types of sectors and investments (reconstruction, mechanization, purchase of planting material of perennial plant crops, etc.), as well as different types of payment (interim and final payment) and thus ensuring all necessary requirements defined in Guideline 2 as well.

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 dual purpose testing, i.e. substantive and compliance testing of non-operational transactions separately for irregularities/debts, transactions in the IPARD Euro account as well as advance payments.

During the dual-purpose testing of irregularities/debts, the AA carried out a full assessment of each item of population 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 within the quarterly and annual declarations is correct.

There were three new cases of debts included into Debtor's ledger during FY 2023 and one case from previous years and AA tested all four cases i.e. 100 % of population, without need of any sampling methodology. Within Debtors ledger which was submitted to the EC on 15th February 2023 there were presented only two new cases, without information on the third debtor with ID No. 20-02-1-0065 (Contract ref. 09-908/20-10473/28) which was presented in quarterly declaration and Debtors ledger for Q4. AA considers it a formal error without financial effect (the payment, debt/irregularity and/or the balance of the IPARD Euro account is actually correct as to its amount). AA confirmed that it represents a transaction where one or more controls have failed and it does not call in question the correctness of amounts in the D2 Annual Declaration. AA tested all three new cases and details are presented in part 5.14 to this Report.

Furthermore, at the beginning of the FY 2023, three irregularity cases identified by AA were presented as administrative errors by IA. Namely, irregularities which were presented in the AAAR 2022 regarding recipients with ID No. 19-02-3-0030 (Contract No. 321-4462/19-52), ID No. 19-02-3-0018 (Contract No. 321-4433/19-29) and ID No. 18-01-3-0014 (Contract No. 321-2099/18-37), firstly, these cases were wrongly classified as administrative errors and thus these cases were not treated as irregularities and were not presented in Debtors ledger although recipients recovered funds on IEA. This deficiency is described in the part 7.1 (IV part). However, after meeting between AA and IA/MS where it was explained that such cases should be treated as irregularities and consequently debts, above-mentioned cases are subsequently entered in IMS in FY 2023.

Therefore, the AA considers above mentioned deficiency regarding excluding recipient with ID No. 20-02-1-0065 (Contract ref. 09-908/20-10473/28) from yearly Debtors ledger a formal error, without financial effect. 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 2023 (D2).

When it comes to the movements in the IPARD Euro account, the AA identified that there were 48 transactions/movements in total (debit and credit) for period from 01/01/2023 to 31/12/2023. 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 dual purpose testing (substantive and compliance) testing and verification in order to establish the legality and regularity of the declared principal and interest amounts.

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.

Also, 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.

When it comes to the advance payments, there were 16 transactions during FY 2023. Considering that pair "advances/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, the AA randomly chose 9 advance payments for dual purpose testing (substantive and compliance) testing and performed verification in order to establish the legality and regularity of the declared amounts as well as test of controls in order to express an opinion on the effectiveness of the ICS related to advances, i.e. to verify how the controls have been able to detect and correct errors before a advance payment has been made.

During dual purpose testing of the advance payments, the AA verified legality and regularity of 9 transactions in total amount of 567.731,15 €. 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. Also, AA verified whether IA perform all controls and checks which are prescribed by procedures regarding advance payments. 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. All controls defined in written procedures have been undertaken and they have been performed in accordance with the set deadlines.

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 2023, statistical sampling is not applicable. According to Guideline No.2, 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	1.010.269,08 €	757.701,77 €
2nd quarter	1.766.149,26 €	1.324.611,90 €
3rd quarter	2.881.714,60 €	2.161.285,91 €
4th quarter	5.780.486,32 €	4.335.364,67 €
Sum of quarterly declarations	11.438.619,26 €	8.578.964,25 €
Annual declaration (D2)		8.578.964,25 €
Difference		0,00 €

AA confirms 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 2023.

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	8.681.038,25 €
Sum of payments stated in the list of payments	8.681.038,25 €
Difference	0,00 €

AA confirms that in FY 2023 there were no differences between the payments made and registered in the List of payments and gross expenditure declared in the Annual Declaration (D2), thus, the Annual Declaration (D2) is reconciled with the List of payments.

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

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 2023;
- No double payment to a recipient was made;
- 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 26 final payments, i.e. 20 % of 126 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	2.515.735,98 €
Bank account statement 31.12.	2.515.735,98 €
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 0,65 € 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 2.515.735,33 € is presented and in the analytical card of IPARD Euro account the amount of 2.515.735,98 € 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 NFD. 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, NFD, based on IA information applies a percentage of 75% on each payment separately. Difference in presented approach resulted in difference in 0,65 €.

Furthermore, the AA identified that when calculating the EU part, IA while 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 ²⁵
D2	0,00 €
Debtors' ledger	0,00 €
Difference	0,00 €

Amount of principal in the 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 31.12.2023).

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

Gross amount paid by IPARD Agency and declared in D2 is 8.681.038,25 €. Recovered amount based on debts presented in Debtors ledger which was submitted together with D2 is 5.814,20 €, while recovered amount due to administrative errors is 4.285,91 €. As explained in Finding Deficiencies in compiling Debtors ledger from part 6.3 to this Report, Debtors ledger which was sent to the EC on 15th February 2024, as part of Annual account package, does not include all debts incurred in FY 2023. Debt regarding recipient with ID No. 20-02-1-0065 (Contract ref. 09-908/20-10473/28), which has been recovered and already deducted from D1 for Q4 FY 2023 is not included in the submitted Debtors ledger, although it is presented in the Debtors ledger accompanying the fourth quarterly declaration (D1) for FY 2023. AA considers it a formal error since it has no financial effect and it does not call in question the correctness of amounts in the D2 Annual Declaration. Debt was recovered in total amount of 122.631,86 EUR (91.973,89 EUR EU part and 30.657,97 EUR national part). Consequently, **total recovered amount is 102.074,00 € (5.814,20+4.285,91+91.973,89). Net amount is 8.681.038,25 - 102.074,00 = 8.578.964,25 €.**

The AA confirms 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 2023.

5.4.6.3 Roll forward of the debtors' ledger

²⁵ Since the D2 presents the principal amount of the debts, in this table, only principal amounts of debts are reconciled

Debtors' ledger year n	Amount ²⁶		
	EU part		
(a) Opening balance year n	0,00 €	7.532,66 €	Debtors' ledger - Closing balance year n-1
(b) New cases	5.814,20 € ²⁷		
(c) Recoveries	5.814,20 €		
(d) Written-off debts	0,00 €		
(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

This table is prepared based on information presented in Debtors ledger which was submitted to the EC on 15th February 2024 as part of Annual account package. However, as presented in Finding Deficiencies in compiling Debtors ledger in part 6.3 to this Report, AA identified some **deficiencies** in compiling the document. Namely, Opening balance (1/1/2023) and Closing balance (31/12/2023) should present sum of principal (0,00 €) and interest amount (7.532,66 €), while in the Debtors ledger only the principal amount is presented. Further, AA confirmed that Debtors ledger which was sent to the EC on 15th February 2024, does not include all debts incurred in FY 2023. Debt regarding recipient with ID No. 20-02-1-0065 (Contract ref. 09-908/20-10473/28), which has been recovered and already deducted from D1 for Q4 FY 2023 is not included in the submitted Debtors ledger, although it is presented in the Debtors ledger accompanying the fourth quarterly declaration (D1) for FY 2023. Debt was recovered in total amount of 122.631,86 EUR (91.973,89 EUR EU part and 30.657,97 EUR national part). Accordingly, in part New cases and Recoveries, instead of 5.814,20 €, it should be stated 97.788,09 €. AA considers it a formal error, without financial impact on correctness of amounts in the D2 Annual Declaration.

The AA confirms that, besides described deficiencies, the actual 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:

²⁶ Based on information from Debtors ledger 15th February 2024

²⁷ Sum of principal 5.814,05 € and interest 0,15 €

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	2.515.735,98 €
Bank account statement 31.12.	2.515.735,98 €
Difference	0,00 €

The AA confirms 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, 2023.

5.4.7.2 Roll-forward of the IPARD Euro account

During 2023 the Commission transferred to the IPARD II Euro Account three payments on the basis of quarterly declarations related to FY 2023 in total amount of 4.243.599,73 € as well as one payment on the basis of quarterly declaration related to FY 2022 in total amount of 2.621.327,60 €. During FY 2023, there were six recovery transactions in total amount of 102.074,00 €. Two recoveries are presented in Debtors ledger in total amount 5.814,20 €, regarding recipient with ID No. 18-01-3-0004 (Contract ref. 321-2098/18-39) and recipient with ID No. 20-02-1-0175 (Contract ref. 09-908/20-10759/52). Recovery regarding recipient with ID No. 20-02-1-0065 (Contract ref. 09-908/20-10473/28) in total amount of 91.973,89 €, was presented in quarterly declaration and Debtors ledger for Q4, but this debt and recovery was not presented in Debtors ledger which was submitted to the EC on 15th February 2023. The other three cases in total amount of 4.285,91 € are related to administrative errors. Namely, irregularities regarding recipients with ID No. 19-02-3-0030 (Contract No. 321-4462/19-52), ID No. 19-02-3-0018 (Contract No. 321-4433/19-29) and ID No. 18-01-3-0014 (Contract No. 321-2099/18-37) were wrongly classified by IA as administrative errors and thus these cases were not presented in Debtors ledger although recipients recovered funds on IEA.

On December 31st 2023, on the IPARD II Euro Account there was an amount of 2.515.735,98 €.

In the course of FY 2023 there was no interest, and balance of interest by December 31st 2023 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	4.229.772,90	0,00
Current account [account number]	4.229.772,90 [907-0000000086001-40]	0,00
Deposit account [account number]	0,00	0,00

	Principal amount (EUR)	Interest (EUR)
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	6.864.927,33	
- for pre-financing	0,00	
- for covering expenditure executed in the previous FY	2.621.327,60	
- for covering expenditure executed in the current FY	4.243.599,73	
Interest accrued on the IPARD Euro account during the financial year		0,00
Amount of expenditure	8.681.038,25	0,00
Amount of national contribution financed from interest		0,00
Recovered amounts	102.074,00	
Written-off amounts	0,00	
Other transactions (to be broken down in detail)		
Expenditure excluded from the declarations of expenditure	0,00	0,00
- financial adjustments made by the NF	0,00	
Payment of financial corrections made by the Commission	0,00	
Bridge financing	0,00	0,00
- funds transferred from state budget	0,00	
- funds transferred to the state budget	0,00	
Closing balance of the IPARD Euro account	2.515.735,98	
Current account	2.515.735,98	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>		

	Principal amount (EUR)	Interest (EUR)
<i>[Deposit number] / [due date]</i>		

The AA confirms 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	
	Principal amount (EUR)	Interest (EUR)
Opening balance of the IPARD Euro account	4.229.772,90	0,00
Current account <i>[account number]</i>	4.229.772,90 <i>[907-0000000086001-40]</i>	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 financial year	6.864.927,33	
- for pre-financing	0,00	

	IPARD Euro account				
	Principal amount (EUR)	Interest (EUR)			
- for covering expenditure executed in the previous FY	2.621.327,60				
- for covering expenditure executed in the current FY	4.243.599,73				
Interest accrued on the IPARD Euro account during the financial year		0,00	Annual declaration amount of expenditure declared		Difference
Amount of expenditure	8.681.038,25	0,00	8.681.038,25		0,00
Amount of national contribution financed from interest		0,00	Debtors' ledger - EU part only		Difference
			Principal amount	Interest	
Recovered amounts	102.074,00		5.814,05	0,15	96.259,80
Written-off amounts	0,00		0,00	0,00	0,00
Other transactions [to be broken down in detail]					
Expenditures excluded from the declarations of expenditure	0,00	0,00			
- financial adjustments made by the NF	0,00				
Financial corrections made by the Commission	0,00				
Bridge financing	0,00	0,00			
- funds transferred from state budget	0,00				
- funds transferred to the state budget	0,00				
Closing balance of the IPARD Euro account	2.515.735,98				
Current account	2.515.735,98	0,00			

	IPARD Euro account	
	<u>Principal amount</u> <u>(EUR)</u>	<u>Interest</u> <u>(EUR)</u>
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 2023, no deviations were found regarding completeness, accuracy and veracity of the amounts, except deficiencies regarding compiling Debtors ledger presented in section 6.3 of this Report.

Difference between the IPARD Euro account and the debtor's ledger, in amount of 96.259,80 €, regarding recovered amounts, appeared due to the:

- inadequate classification and treatment of the three irregularity cases in total amount of 4.285,91 € (administrative errors instead of irregularities/debts),
- not including of recovery of funds in yearly Debtors ledger regarding debt which was presented in quarterly Debtors ledger for Q4 FY 2023 in total amount of 91.973,89 €.

Detailed information is provided in Part 5.14 of this Report.

Total amount of expenditure declared to the Commission for FY 2023 is equal to 8.578.964,25 €²⁸ (EU part) within four quarterly declarations submitted by NAO. First one (D1 – Q1) was declared on 28th April 2023 in amount of 757.701,77 €, second (D1 – Q2) was declared on 26th July 2023 in amount 1.324.611,90 €, third (D1 – Q3) was declared on 25th October 2023 in amount of 2.161.285,91 € and fourth (D1 – Q4) was declared on 22nd January 2024 in amount of 4.335.364,67 €.

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 2023, there were six negative items related to the recovered amounts.

²⁸ Total net amount declared to the EC

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 2023, where IPARD Agency executed 126 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.

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	8.681.038,25
b	Materiality = 2% of a	173.620,77
c	Number of transactions in the IPARD population	126
	<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	20%
	<u>3. Sample tested</u>	
	<u>3.1 Sample size</u>	
f	Number of transactions tested as part of the substantive testing sample	26
g	Value of the sampled transactions tested	1.128.133,77
	<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)	4
j	Value of random errors found in the sampled transactions (overpayments only)	7.197,98

k	Error rate = j / g	0,64%
l	Extrapolated error = k * a	55.388,77
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
<u>4. Tested outside of the sample</u>		-
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
<u>5. Errors found during compliance testing</u>		
r	Total no. of financial errors found in compliance testing ²⁹	0
s	Value of financial errors found during compliance testing classified as known errors	0.00
<u>6. Calculation of the financial impact</u>		-
t	Total error = l + n + q + s	55.388,77
u	Materiality = b	173.620,77

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". During compliance testing of debts, AA identified 1 formal error related

²⁹ AA used dual purpose testing, thus, amount of error identified in compliance testing is considered as random error and accordingly extrapolated

to compiling the Debtors ledger which was submitted with Annual accounts. AA confirms that there is no financial effect of the error, but indicates that one or more controls have failed. 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 16 advances paid to the recipients and declared to the EC. For FY 2023, as a result of substantive and compliance testing of advance payments, no errors were identified.

Basic data	Advances and securities
Value of the population	940.864,86
Materiality	18.817,30
Number of transactions in the population	16
Sample size	9
Total value of sampled items tested	567.731,15
Financial errors found from sampling:	No errors found
Extrapolated total error	0,00
Conclusion	
Total error	0,00
Materiality	18.817,30

A detailed table of all cases checked is attached in Annex 3 (sheet 2.5.1) 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 types³⁰ of error by operation) as well as the nature³¹ of errors found, root causes and corrective measures proposed, including mitigating these errors in the future.

5.8.1 Operational transactions

<p>Level of importance: Major</p>	<p>Body and area concerned: IPARD Agency – Authorization of payments</p>
<p>Finding number and title: 1. Inadequate controls regarding rule of origin under application ID No. 22-04-3-0023 (ref 4.1.1. of final report of audit of operations for Q1 and Q2)</p>	
<p>Project(s) concerned: ID No. 22-04-3-0023 (Contract ref. No. 09-908/22-3211/14), Measure 3 *result of compliance testing</p>	
<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>Article 19, paragraph 1 of the Framework Agreement: 1) Participation in the award of procurement contracts, grants and other award procedures for actions financed under IPA II shall be open to all natural persons who are nationals of, and legal persons which are effectively established in the following countries (hereafter referred to as "eligible countries"), and to International Organizations: - Member States, IPA II beneficiaries, contracting parties to the Agreement on the European Economic Area and partner countries covered by the European Neighbourhood Instrument; and - countries for which reciprocal access to external assistance is established by the Commission. Reciprocal access may be granted, for a limited period of at least one year, whenever a country grants eligibility on equal terms to entities from the Union and from countries eligible under IPA II. Before the Commission decides on the reciprocal access and on its duration, it will consult the IPA II beneficiary.</p> <p>(3) All supplies purchased under a procurement contract, or in accordance with a grant agreement, financed under IPA II shall originate from an eligible country. However, they may originate from any country when the amount of the supplies to be purchased is below the threshold for the use of the competitive negotiated procedure. For the purposes of this article, the term "origin" is defined in Article 23 and 24 of Council Regulation (EEC) N°2913/9214</p> <p>During compliance testing of recipient with application ID No. 22-04-3-0023 (Contract ref. No. 09- 08/22-3211/14), the AA auditors have identified inadequate control related to checking rule of origin.</p> <p>Namely, according to Article 19(3) of the FWA and 44 to the Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union (hereinafter: Decree), when the total amount of eligible expenditure from the offer and/or invoice is equal to or greater than EUR 100.000, the recipient must submit a relevant certificate of origin of the items (EUR 1 or customs declaration). According to the procedures of the IA, based on the documentation submitted</p>	

³⁰ Random, systemic, anomalous

³¹ For instance: eligibility, public procurement, state aid

by the recipient and after on the spot check by IA controllers, the Division for authorisation of payments (hereinafter DAP) shall fill out the document DP-DAP-00-18 Authorization table.

By comparing these documents, AA identified discrepancies regarding the country of origin, and in some cases completely different countries for same items. For example, for item Coolant accumulator as country of origin it is stated: Croatia-offer, Slovenia-custom declaration, Serbia-authorization table, Croatia-report from OTSCH. Such discrepancy was not noticed by the DAP while filling the Authorisation table, nor did they ask for additional explanation from the recipient and/or supplier. Further, in the custom declaration, which presents a valid document for determining origin, as country of origin for item Equipment for ventilation of the manipulation and technical corridor is stated China, in contrast to the offer where it is stated Italy and the Authorization table where it is stated Serbia. Taking into consideration that China is not an eligible country for support according to Article 19, paragraph 1 and 3 of the FWA and attachment No.4 to the Decree, advisors of the DAP wrongly authorized the expenditure related to the item Equipment for ventilation of the manipulation and technical corridor in amount of support **4.370,00 EUR** (8.740,00 EUR*50% (support)=4.370,00 EUR, EU part 3.277,50 EUR and national part 1.092,50 EUR).

Recommendation: The AA recommends following:

- The IPARD Agency should initiate recovery of funds in amount of **4.370,00 EUR** (EU part 3.277,50 EUR and national part 1.092,50 EUR) related to the Equipment for ventilation of the manipulation and technical corridor, which originates from an ineligible country for support, according to the FWA and Decree.
- DAP advisors should adequately check and verify the country of origin of the purchased items, which total value of eligible expenditure in the invoice is equal to or greater than 100.000 EUR, using relevant documents such as EUR 1 or customs declarations, in order to avoid authorization of expenditures from non-eligible origins.

Auditee's response: Recommendation accepted

- A procedure for recovery of funds will be initiated.
- Bearing in mind importance of the control of the country of origin, in the future, during regular internal meetings within the Division for authorisation of payments (DAP) special attention will be given to checking the country of origin by reviewing the relevant evidence (customs declaration/Eur 1 form), in order to prevent similar errors during the processing of payment requests.

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

Quantification of the financial impact: This finding has a financial impact of 3.277,50 EUR (EU contribution) for project 22-04-3-0023.

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 26th January 2024. Based on this decision, recipient recovered funds on 1st February 2024 in total amount 4.370,00 EUR (EU part 3.277,50 EUR and national part 1.092,50 EUR). Thus, this finding is considered as **closed**.

<p>Level of importance: Major</p>	<p>Body and area concerned: Authorization of projects; procurement procedure Authorization of payments</p>
<p>Finding number and title: 2. Inadequate assessment of reasonableness of prices by Evaluation Committee regarding application ID 22-04-3-0003 (ref 4.1.1. of final report of audit of operations for Q3) *result of substantive testing</p>	
<p>Project(s) concerned: ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29), Measure 3</p>	
<p>Description of the finding:</p> <p>ICF requirement 3 (a) Selection and development of control activities ensuring that the control activities include, inter alia, the following:</p> <p>(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>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 Manual of procedures version 2.3, Part II, 1 Sector for structural support, 3 DTEA, Annex DP-DTEA-00-02, Guideline for the work of the Evaluation Committee, tasks of the Committee are, among others, to perform verification of all the investments (equipment and construction) within Measure 3, based on its skills, professional experience, market research, communication with the local and foreign suppliers and other sources.</p> <p>The AA conducted substantive and compliance testing of Recipient under application ID No. 22-04-3-0003, Contract reference 09-908/22-3210/29, who received public support in amount of 50% through Meat sector under Measure 3, for “Investment in equipping facilities for the production of meat products”.</p> <p>During administrative verification, AA identified inadequate assessment of reasonableness of prices by Evaluation Committee (hereinafter: EvC) for certain items.</p> <p>More precisely, the IA requested EvC opinion on reasonableness of prices of items from “FrigoElektro” LTD offer, on 8th September 2022 and received opinion on 31st October 2022 that all prices from the offer are realistic.</p> <p>Among others, the recipient has applied for following items with offered prices (excl. VAT):</p> <ol style="list-style-type: none"> 1. Generator CAJN 45-19Z SFERA with Rivacold evaporator RSI3250ED – 3.050,00 EUR 2. Generator CAJN 45-19Z SFERA with Rivacold dual flow evaporator RDF3250 – 3.050,00 EUR 3. Generator DANFOSS with 2 pieces of Rivacold dual flow RDF 4250 evaporators – 7.152,00 EUR 4. Knee operated sink, 480*340*480 mm – 425,00 EUR. <p>After analysing submitted offer from “FrigoElektro” LTD, EvC reply and supporting documents, as well as IA on the spot</p>	

report, auditors noticed that items listed in the offer and purchased by the recipient differ from those listed by EvC for price comparison. Therefore, AA conducted market research and identified that prices for listed items are not reasonable.

- Namely, EvC for items 1. and 2. stated following: „It is about the equipment of two different suppliers that is used as a one whole and since the evaporators used in both items have similar technical characteristics, and both are similar to the evaporator of the same manufacturer found by searching on the Internet, this price (3.050,00€ excl. VAT) from the offer can be considered realistic.

By analysing supporting documents from the EvC, AA determined that recipient did not apply for generator which was stated by the EvC (manufactured by Tecumseh), neither for stated type of evaporator.

AA research determined following prices for listed items:

1. Generator CAJN 45-19Z SFERA 576,00 EUR + Evaporator Rivacold RSI3250ED 573,00 EUR = **1.149,00 EUR**
 2. Generator CAJN 45-19Z SFERA 576,00 EUR + Rivacold dual flow evaporator RDF3250 551,00 EUR = **1.127,00 EUR**
- For item no. 3 EvC stated following: “The price in amount 7.152,00 € (excl. VAT) is realistic. It is using equipment by 2 different manufacturers. A total of 3 pieces of equipment that are implemented in a single device”.

According to IA on the spot report, which was confirmed by AA on the spot check, recipient did purchase DANFOSS generator, but another type than what EvC stated as proof for reasonableness of prices (MLZ 076). AA research determined following price for types of generator and evaporators confirmed on the spot:

3. Generator DANFOSS MLZ038 1.889,00 EUR + Rivacold dual flow RDF 4250 evaporators (2 pieces) 696,00 EUR * 2 = **3.281,00 EUR**

Note: AA did not determine the average price for items 1, 2 and 3, because presented prices are obtained from the website of the company that is stated in the labels of these items and it is exactly the same model, type and manufacturer of equipment as one's recipient purchased.

- Recipient applied for a knee operated sink dimensions 480*340*480mm manufactured by Forcar Italy with offered price 425,00 EUR (excl. VAT). By requesting modification of the project recipient requested new knee operated sink dim. 400*400*210 mm, made in Turkey, with no information about manufacturer. EvC gave opinion that price of 425,00EUR is reasonable, by comparing sink dimensions 400*400*850 mm with stand and revolving door and manufactured by Forcar, which was not subject of recipient offer, nor purchase.

AA determined average price of **225,00 EUR** for knee operated sinks even of larger dimensions than those what recipient requested and purchased.

Based on AA work, the offered prices are higher than the prices obtained by conducted market research. Amount calculated by AA (1.149,00 EUR + 1.127,00 EUR + 3.281,00 EUR + 225,00 EUR = 5.782,00 EUR excl. VAT) plus variation of 10%, taking into consideration distance in price verification time, installation, import taxes, etc., can be accepted as a reasonable, i.e. 5.782,00 EUR + 10% = 6.360,20 EUR excl. VAT.

Recommendation:

- In line with Article 5, point 12 (f) of the Contract for allocation of funds, AA recommends the IPARD Agency to initiate recovery of the funds in amount of 3.658,40 EUR (EU part 2.743,80 EUR and national part 914,60 EUR).

Calculation is presented below:

Price paid by IA in amount of 13.677,00 EUR - AA market research price plus variation of 10% 6.360,20 EUR = 7.316,80 EUR (difference)

7.316,80 EUR x 50% (support) = 3.658,40 EUR (amount of public support)

- AA recommends the EvC to carry out assessment of prices in a more responsible way, especially when information on items from offer are characterized by high level of attainability.

Auditee's response: Recommendation not accepted.

Recipient under application ID No. 22-04-3-0003 in the phase of allocation of funds for the allocation of support submitted an offer from the bidder Frigoelektro doo which had 40 items.

When it comes to the first two aggregates, the Evaluation Committee could not find identical evidence at that time, so it found the price for the most similar aggregate with an evaporator. The evidence found is of the same brand as the one offered, only of a different type. According to the mentioned evidence, the offered price of EUR 3,050.00 is realistic, because the evidence found (aggregate and vaporizer found separately and totaled) amounts to EUR 3,005.50. When a percentage of 10% is added, the offered price for both aggregates is realistic. Considering that in accordance with the accredited procedures, the reference price can be issued based on the product and model (if it is not possible to find a price for the type), the Evaluation Committee acted in accordance with the procedure.

As for the third aggregate, special evidence was found for it. Since the Evaluation Committee did not have a type that was clearly determined by the offer, ie. specification, that's how she found the proof that she attached. When it comes to the price of the dual flow vaporizer, the Evaluation Committee could not find identical evidence at that moment, so it submitted the most similar vaporizer. The fact that a difference was established on the spot control, the Evaluation Committee could not have known during the contracting phase, because the type of aggregate was not specified in the offer. The commission will be suggested to send an inquiry if they think that the offer can be more detailed in order to give a more precise price.

Regarding your observations regarding the procurement of knee-operated sinks, the Evaluation Committee found evidence from the Brantodel catalog and made the following comment:

"Looking at the catalog of the Brantodel company, the price of €425.00 without VAT is realistic compared to the price of €310.00 without VAT from the manufacturer, which has smaller dimensions (400X400X260) and similar characteristics in terms of material consumption and dimensions."

In the original offer, the recipient asked for a sink with larger dimensions of 480X340x480, so taking into account the difference in dimensions, the price was reasonable according to the Evaluation Committee.

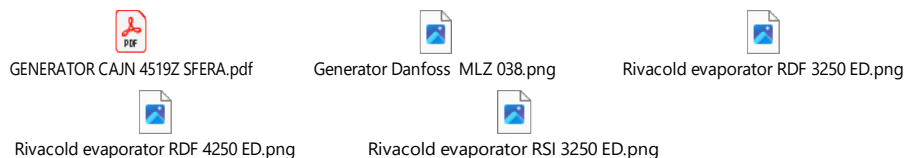
By changing the project, this recipient was looking for a sink with knee activation of smaller dimensions 400X400x210, and at that moment the EC researched the market and found two new pieces of evidence from the bago.rs website

In communication with the EC, we received information that the recipient requested a change in the project almost a year after issuing the initial offer, and that due to inflation, the EC had to request new evidence and that according to this evidence, the prices for smaller dimensions were still realistic. The sinks found on the market correspond to the sink that was requested after the project change. The appearance of the knee activation does not play a role in the price, but only the functionality and dimensions of the pool. The fact that the simplest model was found on the spot control, we can conclude that the EC could not have known this in the contracting and project change phase, because the pictures in the offer were not delivered.



Conclusion by the AA:

As AA has already explained, prices for generators (items 1, 2 and 3) are obtained from the website of the company that is stated on the labels of equipment determined by AA on the spot control. As regards evaporators, AA found prices for exactly the same model, type and manufacturer as one's recipient purchased.

Evidences enclosed in attachments:



Regarding knee operated sink, AA followed website attached by EvC as a proof - <https://bago.rs/pretraga.php?kat=&rec=sanitarni+lavabo>.

Having in mind that recipient applied and purchased following sink (), it is clear that sinks no. 5 and 7 from the website, which EvC stated as a comparative category (), cannot be considered as an adequate market research and realistic price estimate.

AA recommends the IPARD Agency to initiate recovery of the funds in amount of 3.658,40 EUR (EU part 2.743,80 EUR and national part 914,60 EUR) as soon as possible.

Quantification of the financial impact: This finding has a financial impact of 2.743,80 EUR (EU contribution) for project 22-04-3-0003.

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

Administrative procedure is ongoing, therefore, implementation of recommendation will be further monitored.

Level of importance: Major	Body and area concerned: On the spot control
Finding number and title: 3. Ineligible expenditure related to Recipient under application ID No. 21-03-1-0009 (ref 4.1.2. of final report of audit of operations for Q3) *result of substantive testing	
Project(s) concerned: ID No. 21-03-1-0009 (Contract ref. No. 09-908/21-15025/26), Measure 1	
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 substantive and compliance testing of Recipient under application ID No. 21-03-1-0009 (contract reference No. 09-908/21-15025/26), who received public support in amount of 65% through Olive sector under Measure 1, for “Project of planting 2 ha of olive trees in the area of Donji Zagarač“. According to the signed Contract, among others, the Recipient purchased 800 wooden polls in dimensions 5x200 cm, as well as equipment for irrigation system.	

During the administrative and on the spot verification of the contracted and paid items, the AA identified a deficiency related to wooden polls, which were foreseen to be purchased, in order to support olive plants' proper growth. The number of wooden polls (800 of them) corresponds to the number of olive plants stated in the contract. During IA on the spot control before payment, controllers stated in their report that: "Wooden polls 5x200: in the Invoice, there are 800 of these items, OTSC found 942 pieces, that are not of the same diameter and height.". During the AA on the spot control, the auditors found a similar number of wooden polls (957) as IA controllers. However, AA determined that these wooden polls are not the ones that were supposed to be purchased through the invoice - as they were hand-made, of different diameters and heights, which is accompanied with sufficient photo-documented evidence acquired by AA. Therefore, the auditors concluded that the amount of support for 800 wooden polls was incorrectly authorized and paid to the recipient.

Additionally, the AA identified a deficiency with possible financial impact related to elements of the irrigation system. According to the Invoice for irrigation system, among others, recipient purchased 10 pieces of Plastic jumbo valve boxes 14 (hereinafter: valve boxes). In IA on the spot control report before payment, it is stated that IA found 6 out of 10 valve boxes that were contracted and consequently, the recipient was authorised and paid in the amount equivalent to the value of 6 valve boxes. However, the IA controllers did not provide photo-documented evidence of all 6 found valve boxes, as they provided evidence for only one valve box.

On the other hand, considering the size of the plot and because the grass has grown, the AA auditors have not been able to determine the locations of the valve boxes. Auditors had found only 1 valve box, which matches with what IA documented with photos.

Recommendation: The AA recommends following:

- The IPARD Agency should initiate recovery of funds in amount of **1.461,15 EUR** (EU part 1.095,86 EUR and national part 365,29 EUR) related to the wooden polls.

Calculation is presented below:

2,8099 EUR (price of 1 wooden poll without VAT) x 800 (number of wooden polls) = 2.247,92 EUR (total amount of eligible cost)
2.247,92 EUR x 65% (support) = **1.461,15 EUR** (amount of public support)

- The IPARD Agency should perform additional on the spot control, in order to find, document by photos and mark on the plot map locations of 5 valve boxes that could not have been found by AA. In case where IA cannot find the missing valve boxes, IA should:

Initiate recovery of funds in amount of **107,41 EUR** (EU part 80,56 EUR and national part 26,85 EUR) related to the value of 5 valve boxes, as approved and paid to the recipient.

Calculation is presented below:

33,0496 EUR (value of 1 valve box without VAT) x 5 (number of valve boxes) = 165,25 EUR (total amount of eligible cost)
165,25 EUR x 65% (support)= **107,41 EUR** (amount of public support)

Auditee's response: Recommendation accepted

IPARD Agency will initiate recovery of funds.

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

Quantification of the financial impact: This finding has a financial impact of 1.176,42 EUR (EU contribution) for project 21-03-1-0009.

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

Decision on recovery of funds is already prepared. The case will be further monitored.

Level of importance:

Major

Body and area concerned:

Authorization of projects, procurement procedure

Finding number and title: 4. Deficiencies in process of contracting and procurement procedure related to recipient with application ID 22-04-3-0003 (ref 4.1.3. of final report of audit of operations for Q3)

*result of compliance testing

Project(s) concerned: ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29), Measure 3

Description of the finding:

ICF requirement 3 (a) Selection and development of control activities ensuring that the control activities include, *inter alia*, the following:

(ii) Rules for each type of procurement and grant calls ensuring appropriate legal framework for all such commitment processes

(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

According to Article 8 of the Fourth public call for Measure 3, applicants willing to apply for the IPARD Programme 2014-2020 support, are obliged to submit all necessary documents prescribed in the Attachment 2, List of necessary documents with the Request for support for the investment concerned.

According to point 22 of the Attachment 2, In the case of investments in the procurement of equipment, machinery, etc., applicants must submit an offer from bidders for all items to be procured, not older than 3 months, with the specified country of origin, and with **adequate technical specifications** for the items concerned.

According to the Mop for Department for publicity and authorization of projects (hereinafter: DPAP), v.2.3, Annex DP-DPAP-00-08 Eligibility check list M3, point 26 (b) Technical specification shall be delivered for each item from the offer in case of purchase of items (equipment, machinery, etc.) and the answer is YES if technical specification is delivered and contains detailed characteristics for each single item from the offer.

During administrative verification of recipient with application ID 22-04-3-003 / contract reference 09-908/22-3210/29, AA determined that recipient together with the request for support submitted an offer from bidder FrigoElectro LTD, without technical specification and that IPARD Agency, by sending Notification for additional documentation, requested from recipient to submit, among others, detailed technical specifications for all the items listed in the offer of FrigoElectro LTD. Afterwards, recipient delivered to the IA technical specification only for some of items required, but not for all of them.

By analyzing the offer and submitted technical specifications, the AA also noticed that some of the items from offer are not well defined in quantity. For example, for item no. 14 Equipment for ripening (cooling

unit, water heater, evaporators, air deflectors, electrical control panel for regulating temperature and air humidity) it is stated **1 piece**, without any technical specification, nor additional explanation, while according to AA on the spot control, auditors have found 3 cooling units, 1 water heater, 2 evaporators, 5 air deflectors and 1 electrical control panel, as integral parts of ripening equipment.

Further, the AA determined inconsistency in units of measures of certain items in the offer. Namely, items no. 6-8 refers to polyurethane panels, but for item no. 6 it is stated 19 **pieces**, for items no. 7, 102.4 **m²** and for item 8, 92 **m²**, while for item no. 9 which is related to installation of those panels, as measure unit is stated **piece**, concretely 212.5 **pieces**.

Based on above-mentioned, AA considers that there was a failure in controls within the DPAP related to verification of the offer and completeness of supporting documents.

Further, according to the Manual of procedures version 2.3, Part II, 1 Sector for structural support, DPAP, Chapter 5.6 Application eligibility check The Advisor II prepares the form DP-DPAP-00-29 b Request for opinion about reasonableness of the prices and forwards it to the Head of DPAP. Head of DPAP approves it and forwards it by e-mail to the Head of DTEA together with the necessary documentation.

According to the Manual of procedures version 2.3, Part II, 1 Sector for structural support, Department for technical and economic analysis (hereinafter: DTEA), Chapter System of work within the verification of the reality of prices, If the request for opinion about reasonableness of the prices relates to equipment (Measure 3), the request is immediately forwarded to the Evaluation Commission, which gives its opinion. Following the response of the Evaluation Committee, a final opinion on the reality of prices is drawn up, signed by the controller and approved by the head of DTEA.

Since drawing up final opinion on the reality of prices is responsibility of DTEA, AA considers that there was a failure of controls within DTEA, because they did not identify deficiencies in the content of the submitted offer and in supporting documents.

Besides the fact that offer was submitted without detailed technical specification, with obvious inconsistency in quantity and measure units, the IA accepted it as appropriate and signed contract on support with recipient.

According to the Manual of procedures version 2.3, Part II, 1 Sector for structural support, DPAP, Chapter 5.11. after signing the Contract with IA, the recipient is obliged to perform public procurement by announcing the invitation for offers which gives opportunity to different independent suppliers to submit offer before payment. Since Invitation for offers shall follow technical specifications from contracted offer, all above mentioned led to a new deficiency - content of invitation for offers itself.

Namely, Invitation for offers was published without sufficiently defined technical specifications, with no conformity in quantities and/or measure units.

AA considers that publishing invitation for offers in such a way can jeopardize the entire procurement process and lead to confusion among potential bidders about what exactly is required by the invitation.

Recommendation:

- AA recommends IA that during contracting, they should take into consideration only offers with detailed technical specifications and clearly indicated quantities and units of measurement in order to finalize the process of procurement and realization of the project in an adequate way.

<p>- AA recommends IA to issue a mandatory instruction to the applicants when filling out an invitation for offers that all items should be unambiguously determined, (where it is possible) measurable and with sufficient technical specifications to allow different bidders to apply.</p>
<p>Auditee's response: Recommendation Accepted</p> <p>Considering that the controllers considered that the technical specification that was submitted as a supplement for certain items contained in the offer is sufficient, and in case it is not sufficient, the Evaluation Committee will request that it be supplemented. Given that the commission was able to determine the reality of the price based on the submitted offers and specifications, the user does not need additional specifications. In the future, we will look for all items from the offer of detailed technical specifications as the only reference values that comply with the specifications.</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 no financial impact.</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 24th January 2024, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2024.</p>

<p>Level of importance: Major</p>	<p>Body and area concerned: Authorization of projects</p>
<p>Finding number and title: 5. Undefined procedure related to VAT exemption in specific situations (ref 4.1.1. of final report of audit of operations for Q4)</p> <p>*result of compliance testing</p>	
<p>Project(s) concerned: /</p>	
<p>Description of the finding:</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>Level of priority: Major</p> <p>Body/-ies concerned by the finding: NAO/ IPARD Agency</p> <p>According to Article 28 (2) a) of Framework agreement (hereinafter: FWA):</p> <p>'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.'</p> <p>Furthermore, in accordance with Rulebook on Value-Added Tax Exemptions (OG 080/22) Article 13a Exemption from VAT payments for projects financed by the European Union it is prescribed that Importer, supplier of products, service provider, i.e. beneficiary of donations, for the purpose of proving the right to exemption from VAT, encloses a statement that the referred products and services meet the conditions for VAT exemption.</p>	

The state administration body responsible for the area in which the EU assistance project is being implemented, i.e. Directorate for Payments issues a certificate for VAT exemption. VAT exemption is based on the total amount of the contract, including EU funds and co-financing funds.

AA conducted substantive and compliance testing for operational transactions declared to the EC in Q4 for FY2023 and determined undefined obligation of IA related to VAT exemption in some specific situations.

- By analyzing procedures and conducting administrative verification of sampled recipients, AA noted that after signing contracts for allocation of funds between IA and recipients, invitations for offers are published. On the basis of the received offers, recipient signs contracts with suppliers and after that submits request for exemption from VAT for the amounts specified in the offers. However, the amount of offers received from suppliers does not have to be equal to the amount of eligible costs defined in the contract with IA or equal to the amount that will be accepted and paid by the IA after the investment is completed.

Namely, by administrative verification of two recipients who were sampled in the Q4 , AA identified that:

- a. the amount of the offer for which exemption from VAT was requested and approved (EUR 29,247.70) was higher than the amount of eligible costs under the contract with IA (EUR 28,898.84), difference EUR 348.86, for which recipient received exemption from VAT even though this part was not accepted as eligible cost according to the contract
- b. the amount of offers for which exemption from VAT was requested and approved (EUR 84,075.62) was greater than the amount of eligible costs that was approved and paid to the recipient by IA after the investment was completed (EUR 82,477.71), difference EUR 1,597.91, for which recipient received exemption from VAT even though IA did not accept this part as eligible to be paid

According to IA Manual of procedures, Annex DP-DPAP-00-20 Contract for allocation of funds, Article 8, point 39) states In the event of an unacceptable invoice, the recipient will pay value added tax for that invoice in comply with the law.

Having in mind possibilities identified during audit, that not the entire invoice is unacceptable, but only part of it, AA considers that mentioned article from the contract should be expanded with the "or unacceptable amounts from the invoice". IA correctly calculated and authorized only contracted amount, but regarding VAT exemption, further steps should be defined in order to reconcile the amount actually granted by the IA and the amount subject to VAT exemption. In this way, it would be provided avoidance of unjustifiably VAT exemption in favor of the recipient.

- Additionally, in accordance with **Article 28(2)(c) of FwA** the exemption shall in principle be put into effect through ex-ante exemption. Where this is not technically and/or practically feasible, it shall be put into effect through **refund/offsetting**, as well as where the refund procedure applies, Union contractors and contractors of Union contractors shall be able to obtain a VAT refund directly from the tax administration upon submission of a written request to the tax administration accompanied by the necessary documentation required under Montenegro law for the refund of VAT. AA determined inconsistency regarding exemption of VAT for general costs.

Namely, when applying for support, recipient together with the request for support can submit an offer for general costs with contract signed with entities registered for that kind of activity or an invoice accompanied with a bank statement that it has been paid. AA noticed that recipients, according to the current Rulebook on value added tax exemption and current procedures have possibility to exempt from VAT only in case that they haven't paid costs, i.e. only through ex-ante exemption.

Interpreting mentioned article from Fwa and that according to the IPARD II programme general costs can be eligible retroactively (since they may occur before contract conclusion), AA considers that recipient has right on exemption of VAT in both cases, i.e. ex-ante exemption in case he submits offer and contract with consulting company or refund in case he submits invoice and bank statement on already paid general costs.

Recommendation:

The AA recommends following:

- To define procedure and steps for exemption from VAT in situations where inconsistencies occurred between the invoiced and the contracted or paid amount by IA, in order to VAT exemption rule apply in accordance with all positive regulations.
- To update Annex DP-DPAP-00-20 Contract for allocation of funds, Article 8, point 39 with “or unacceptable amounts from the invoice“.
- NAO/IA in cooperation with institutions relevant for tax system should find a solution to provide the recipients right to obtain a VAT exemption through refund, when ex-ante VAT exemption is not technically and/or practically feasible, in accordance with Article 28 of the Fwa.

Auditee’s response: Recommendation will be taken into consideration

Indeed, existing national procedure for VAT exemption do not foreseen steps in case when some cost is already VAT exempted and at certain moment it is recognized as non-eligible. Moreover, existing national procedure for VAT exemption do not foreseen steps in case of costs incurred and paid before contract is signed (when official VAT exemption procedure should start).

The Ministry of Finance formed Working group for improvement of VAT procedure at national level (Decision is made on 22/02/2024) and upon receipt of AA draft report we initiated abovementioned issues to the WG in order to analyse existing legal framework and possibilities in this regard, together with all relevant bodies in charge for VAT process in Montenegro (Ministry of Finance, Tax administration, Contracting authorities, etc.). Please find enclosed copy of request sent to WG.



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Bearing in mind that VAT exemption procedure is regulated by different national legal acts, formal analysis of national procedures will be made by WG and all relevant bodies should give their opinion on proposed recommendations of the AA, with proposed solution, if they will be possible, in regard to solving abovementioned.

VAT exemption is systematic issue which should be solved at national level. In the future, IPARD Agency will update Annex DP-DPAP-00-20 Contract for allocation of funds, Article 8, point 39 with as proposed by AA, when and if the new improved regulation enters into force.

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

Quantification of the financial impact: This finding has no financial impact.

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

Considering that AA issued final engagement report on 11th March 2024, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2024.

Level of importance: Intermediate	Body and area concerned: Authorization of payments
Finding number and title: 6. Inadequate controls during authorization of Payment request under application ID No. 22-04-3-0023 (ref 4.1.2. of final report of audit of operations for Q1 and Q2) *result of compliance testing	
Project(s) concerned: ID No. 22-04-3-0023 (Contract ref. No. 09-908/22-3211/14), Measure 3	
Description of the finding: <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 compliance testing of recipient with application ID No. 22-04-3-0023 and Contract No. 09-908/22-3211/14 (project: “Improvement of fruit processing technology”), under Measure 3, the AA auditors have identified inadequate control during authorization of Payment request, related to documents accompanying the Request itself as well as report from on the spot control conducted by IA.</p> <p>Namely, the AA auditors identified that one of the invoiced items within invoice from FrigoElektro llc, No. 242/2023 was Low-pressure steam generator EK 150, but within custom declaration instead of this type of steam generator, it is stated Low-pressure steam generator Šukoplam 350. According to the photos from OTSC taken by IA, the AA found that Šukom was written on the Low-pressure steam generator, but in the OTSC report it is stated that due to absence of the serial plate, controllers could not identify the type of generator. Further, the IA did not require any explanation from the recipient and/or supplier and did not ask Evaluation Committee for an opinion regarding value of the new type of item, which is prescribed by MoP version 2.3, although the discrepancies were obvious. Consequently, DAP advisors through document DP-DAP-00-18 Authorization table, authorized Low pressure steam generator EK 150, although a low-pressure steam generator from a different brand was purchased.</p> <p>On the other hand, by analysing the control lists of the IA, the AA determined that mentioned control failure is also caused by the lack of an adequate question within DP-DAP-00-07-3 Check list for completeness and compliance for Measure 3 related to checking whether the equipment of the same brand was purchased as it was contracted. The missing question is already included in the DP-DAP-00-07-1 Check list for completeness and compliance for Measure 1, and in case of discrepancy, i.e. when purchasing equipment of a different brand from the contracted one, the procedures to be followed are exactly described.</p> <p>Taking into account all of the above, the AA conducted a market research related to the actual purchased item and determined that the Low-pressure steam generator Šukoplam 350 has better technical specifications and higher price than Low-pressure steam generator EK 150 which was contracted. Thus, the AA determined that EU funds are not affected due to noticed deficiency.</p>	
Recommendation: The AA recommends the following: <ul style="list-style-type: none"> • IPARD Agency should update and harmonize DP-DAP-00-07-3 Check list for completeness and compliance for Measure 3 in order to include control question whether the equipment of the same 	

brand was purchased as it was contracted, in the same way as it stated in the DP-DAP-00-07-1 Check list for completeness and compliance for Measure 1.

- DAP advisors should follow their procedures and consider all documents supporting Payment request as well as all details from OTSC reports. Especially when discrepancies are noticed, they should send to the Unit of Technical and Economic Analysis form DP-DAP-00-09 "Request for opinion" in order to get opinion for reasonableness of costs from Evaluation Committee.
- Better cooperation between the two divisions, DOSC and DAP, which will generally affect the efficiency and effectiveness of the payment authorization process itself.

Auditee's response: Recommendation Accepted

- The control in the part of checking the diversity of the brand was carried out in such a way that, if the data from the on the spot control did not match the data from the invoice, Division for authorisation of payments (DAP) sent a Request for an opinion on the reality of the prices to the Unit for Technical and Economic Analyses, i.e. to the Evaluation committee. On the basis of the opinion obtained from the Evaluation committee, further processing of the Payment Request was carried out. IA will initiate the procedure for exception, and will introduce this question into the checklist DP-DAP-00-07-3.

- This procedure is already followed, as explained above. In this specific case, the item "low pressure steam generator EK 150" was listed on the invoice of "Frigo Elektro" doo No. 242/2023 and in the OTSC report it was stated that the controllers could not identify the type of generator. This was reason why we did not ask the Evaluation committee for clarification, because we had nothing to compare and no information to send on the basis of which we would get an opinion on the price. In the future, if such cases occur, an adequate audit trail will be left for all steps taken (comments in checklists, explanation and clarifications from recipients according to article 105 of Low of administrative procedure).

- This part of the findings is not completely clear to us, and we would like to know where and in what way the communication should be improved.

Conclusion by the AA:

Regarding cooperation between DOSC and DAP, the AA recommends the DAP to state clear notes within annex DP-DAP-00-17 Request for on-spot-verification in situations when suspected or obvious discrepancies are identified in documentation supporting Payment request (for example customs declarations vs. invoice, etc.), in order to remind DOSC controllers what to pay special attention to. On the other hand, the AA recommends DOSC controllers, especially because they have direct contact with the realized investment, to explain discrepancies in more details, in order to make it easier for DAP to decide on authorisation of payment.

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: This finding has no financial impact.

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

Considering that AA issued final engagement report on 10th November 2023, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2024.

<p>Level of importance: Intermediate</p>	<p>Body and area concerned: Authorization of payments/On the spot controls</p>
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Finding number and title: 7. Inconsistency in the relevant documents and on the spot under application ID No. 22-04-1-0076 (ref 4.1.3. of final report of audit of operations for Q1 and Q2)

**result of compliance testing*

Project(s) concerned: ID No. 22-04-1-0076 (Contract ref. No. 09-908/22-6766/19), Measure 1

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.

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

During compliance testing of recipient under application with ID No. 22-04-1-0076 (Contract ref. No. 09-908/22-6766/19), the AA's auditors have identified certain shortcomings regarding inconsistency in the relevant documents accompanying request for payment and on the spot control report conducted by IA.

Namely, recipient had submitted Payment request with accompanying documents, where it was stated that he acquired, among others items, a trailer manufactured by Fermak (price 6.260,00 EUR), with carrying capacity of 6 tons and hydraulic brakes. The mentioned trailer from Fermak manufacturer with above specified characteristic was stated in offer made by supplier "Agroauto" LLC, contract between recipient and supplier, invoice, as well as in traffic license. However, during on the spot control conducted before payment, the IA's controllers from Division for On-the-spot control (hereinafter DOSC) instead of Fermak, found a Tan Agro trailer, with the same technical characteristics, including the same serial number. Based on the Report from on the spot control, Unit for advertising and authorization of projects requested from Unit of Technical and Economic Analysis (hereinafter UTEA) an opinion regarding reasonableness of price for the Tan Agro trailer. According to UTEA's opinion price of 6.260,00 EUR was assessed as nonrealistic for Tan agro trailer because it is more than 15% and less than 30% percent higher than price obtained by contacting another supplier. Consequently, accepted and paid price for the Tan agro trailer was 5.544,59 EUR, which means that there was no misuse of EU funds.

Considering the aforementioned and on the spot verification conducted by AA, which confirmed that the trailer found on the spot do not match with the one which was stated in the relevant documents, the AA's auditors had done further market research.

Based on the conducted research, the AA auditors have concluded that there isn't connection between mentioned manufacturers, and therefore they could not offer trailers under the same serial number.

Taking into account that the serial number of the trailers is the same, but manufacturers are different, the AA assesses it as a failure of IA controls, since IA did not do additional market research and did not ask for additional explanations from recipients and/or suppliers.

Bearing in mind the fact that it was purchased item from another manufacturer and not the one which was stated in the relevant documents (supplier's offer, contract between recipient and supplier, invoice, traffic license), it is necessary to monitor similar cases with due diligence especially when it comes to the above-mentioned supplier. Therefore, such cases should be treated as irregularities. Taking into account that IA had checked market price of the trailer from Tan agro manufacturer and in accordance with that, accepted price reduced by 12%, this case should have been recorded as irregularity without financial impact. This further implies that in described situation, employees of the Division for Authorization of Payments did not follow prescribed steps in MoP of preventing, detecting and proceeding in case of irregularities and frauds according to which: "When reported formally and in written form, the employee is obliged to confirm in

written factual findings of the reported events on the Report on suspected/detected irregularity (DP-01-01) within three days after discovery of the irregularity and to submit it to IO".

Additionally, treating such cases as irregularities would also facilitate the monitoring process of suppliers involved in it.

Recommendation:

The AA recommends IA to require adequate explanations from recipients in case they find inconsistencies on the spot and in the documents. This implies thorough analysis and further research in order to reduce the risk of misuse of funds. Furthermore, the AA recommends treating such cases as irregularities according to Framework agreement, MoP of preventing, detecting and proceeding in case of irregularities and frauds and Guidelines on irregularity management issued by AFCOS Office of Montenegro as well.

Auditee's response: Recommendation Accepted

In order to determine the situation, the IA contacted recipient and gathered additional evidence. In the attachment, we provide evidence that indicates a technical error was made on the issued invoice. In the future, if certain inconsistencies are observed during the processing of Payment Requests, Division for authorisation of payments (DAP) will make additional efforts to determine the facts and leave an adequate audit trail (clarifications from the recipients, etc.) (Attachments given enclosed within an e-mail).

Conclusion by the AA:

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: This finding has no financial impact.

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

Considering that AA issued final engagement report on 10th November 2023, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2024.

Level of importance: Intermediate	Body and area concerned: Authorization of payments
Finding number and title: 8. Non-compliance of IA's procedures with Decree for implementation of measures regarding interim and advance payments (ref 4.1.4. of final report of audit of operations for Q1 and Q2) *result of compliance testing	
Project(s) concerned: /	
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. Article 38 of “Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union”:	

Paragraph 1: The recipient of the support can submit a request for payment after completion of investment or requests for payment after completion of phases of the investment, within the deadline determined by contract on the allocation of funds.

Paragraph 2: If the recipient submits a request for payment by phases of the investment (interim payment, the part of the investment for which the request is submitted must be a functional unit in accordance with the contract on the allocation of funds.

Paragraph 5: If the recipient submits an interim payment request, he/she cannot submit a request from Article 35(a) of this Decree (request for advance payment).

During administrative verification of interim payments declared in first two quarters of FY 2023, the AA auditors identified a non-compliance of IPARD Agency's check lists for authorization of payments (MoP version 2.3) with Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union.

Namely, DP-DAP-00-07 Check list for completeness and compliance and DP-DAP-00-13 Checklist for advance payment do not contain any question regarding paragraph 5 of article 38 of Decree, which prescribes that recipient who has used the advance payment option, cannot apply for the interim payment. Furthermore, within DP-DAP-00-07 Check list for completeness and compliance there is no question regarding paragraph 2 of the Decree, which confirms whether part of the investment for which the interim payment request was submitted, is a functional unit. Mentioned check list also does not contain question whether total amount of support is paid in a maximum of three interim payments, as defined in the annex DP-DAP-00-20 Contract for allocation of funds.

According to conducted audit, the AA determined that IA enters information on paid advances and interim payments in the annex DP-DAP-00-19 Authorization letter. However, since the preparation of the annex DP-DAP-00-19 Authorization letter is the last step in the process of authorization of payment, the AA considers that questions related to requirements from the Decree and Public call must be included at the very beginning of the checklists, in order to know whether the payment requests should be processed at all.

Recommendation:

The AA recommends the following:

- IPARD Agency should update and harmonize DP-DAP-00-07 Check list for completeness and compliance and DP-DAP-00-13 Checklist for advance payment in accordance with article 38 of Decree and MoP version 2.3, in order to avoid wrongly authorization of interim and advance payments requests and to facilitate the monitoring of the use of funds.

Auditee's response: Recommendation Accepted

We are already checking the mentioned criteria from the Decree, although we do not have specific questions in the checklist. We check this in such way that in the case of requests for a interim payment, we check through the internal table of advance payments whether the recipient has been paid an advance payment. Also, through the internal table of interim payments, it is checked how many interim payments the recipient has used so far. In case of a request for an advance payment, it is checked through the interim payment table whether he has used the interim payments.

In the next amendments to the procedures, we will include some of the questions related to this specific verifications. Also, the amendment of the Decree is ongoing, and recipients will be able to use advance

and interim payments, as well as the possibility of using interim payment in case the phase is not a functional unit, so we will harmonize everything with the new Decree.
Conclusion by the AA: The implementation of the recommendation will be further monitored.
Quantification of the financial impact: This finding has no financial impact.
Actions taken by the auditee to mitigate the risk that the error is repeated in the future: Considering that AA issued final engagement report on 10 th November 2023, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2024.

Level of importance: Intermediate	Body and area concerned: Authorization of projects
Finding number and title: 9. Absence of questions related to the additional public aid within eligibility check list for Measure 1 (ref 4.1.4. of final report of audit of operations for Q3) *result of compliance testing	
Project(s) concerned: /	
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. Article 15 of the “Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union” (hereinafter: Decree): <ul style="list-style-type: none"> - Support funds for the implementation of Measure 1 can be allocated for investments whose total amount of eligible costs is in range from €10,000 to €500,000. - Funds from paragraph 1 of this article are allocated up to 60% of the amount of approved eligible costs. - Funds from paragraph 1 of this article are allocated in the amount of up to 65% of the approved eligible costs for an agricultural holding whose owner is less than 40 years old at the time of submitting the request for support. - Funds from paragraph 1 of this article are allocated in the amount of up to 70% of the approved eligible costs for agricultural holding in the mountainous area. - Additional 10% of support funds referring to the funds from para. 2, 3 and 4 of this article, can be assigned for part of approved eligible costs related to the management, storage of manure and other waste from agricultural production. During compliance testing, the AA auditors identified absence of questions within Annex “DP-DPAP-00-07 Eligibility check list for M1” related to the fulfilment of requirements that provide additional public aid through measure 1. Namely, mentioned check list does not contain question regarding age of owner of agricultural holding as well as question whether agricultural holding is located in the mountainous area, which is presented in paragraph 3 and 4 of Article 15 of Decree.	

On the other hand, checklist contains a scoring table, where Altitude and Age of the applicant are presented as ranking criteria. Advisors for advertising and authorisation of projects fulfil this part of the checklist when checking conditions for additional public aid. Since this part of the checklist is related to ranking of projects and mentioned ranking criteria are presented in the context of assigning ranking scores, the AA considers that questions related to altitude and age of the applicant should be included in the part where all eligibility requirements are checked.

The AA wants to emphasise that during compliance testing of sampled projects in previous years, did not identify any error regarding this issue, which means that IA advisors check these requirements.

Recommendation:

The AA recommends the following:

- IA should update and harmonize annex "DP-DPAP-00-07 Eligibility check list for M1" in accordance with Article 15 of Decree, regarding additional public aid, in order to avoid possible assignment of incorrect public aid to recipients.

Auditee's response: Recommendation Accepted

Considering that in the checklist in the table "Review table - Ranking criteria" the question is asked whether the applicant is a young farmer and that during the calculation the conditions related to the allocation of the percentage of support are always checked, we did not have that question specifically in the checklist, to not repeat the questions twice. But we will accept the recommendation and include that particular question in the checklist during the next call.

Conclusion by the AA:

Taking into consideration that table "Review table - Ranking criteria" has a different purpose, the AA considers that including of these questions would not be repeating, but ensuring adequate control of all eligibility requirements.

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: This finding has no financial impact.

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

Considering that AA issued final engagement report on 24th January 2024, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2024.

Level of importance: Intermediate	Body and area concerned: Authorization of payments
Finding number and title: 10. 4.1.2 Administrative error regarding recipient with ID No. 21-03-1-0067 (ref 4.1.2. of final report of audit of operations for Q4) *result of compliance testing	
Project(s) concerned: ID No. 21-03-1-0067 (Contract ref. No. 09-90822-2818), Measure 1	
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.

During compliance testing of recipient with application ID No. 21-03-1-0067 and Contract No. 09-908/22-28/18, the AA auditors have identified inadequate authorized and paid amount.

Namely, recipient submitted Payment request with attached invoice in amount 28.746,94 EUR (without VAT) and bank statement in amount 28.746,40 EUR, i.e. 0,54 EUR less than invoiced amount. During authorization of the request and supporting documentation, IA advisors noticed and stated the difference in annex DP-DAP-00-07-1 Check list for completeness and compliance for M1, however, they authorized invoiced amount, instead of actual paid amount to the supplier. According to Guideline No 5, AA considers it an undue payment made by IA, i.e. an administrative error. According to Article 41(8) of the SA, part of the expenditure affected by such error should not be supported by the Fund or, if detected after it has been declared, should be promptly deducted from the next quarterly and annual expenditure declarations. Considering that error is detected after it has been declared to the EC, according to Section 2.6.2.1 Deduction of administrative errors, the unduly paid amount should be returned by the national authorities to the EU budget irrespective of the state of play of the recovery procedure (even before or in the absence of an actual recovery from the recipient).

Recommendation:

AA recommends the IA to return the undue amount due to administrative error (0,54 EUR * 65% = 0,35 EUR (public support), EU part 0,26 EUR) to the EU budget by reducing the next expenditure declaration. In addition, the amount deducted should be credited to the IPARD Euro account in line with the SA.

- In order to ensure sound financial management, regardless of whether the amount of discrepancy is significant or not, authorization of payment request should be conducted with due diligence, with the aim of protecting EU and national funds.

Auditee's response: Recommendation Accepted

DAP will initiate recovery of funds. The amount will be refunded to the IPARD Euro account.

In the checklist, a little amount of payment was recorded compared to the invoice. Since the difference was 0.54 EUR, we did not authorize a smaller amount, but DAP enter the amount from the invoice.

DAP always in the third step enters the less paid amount and leaves a comment, so that DAP does not pay out a support amount higher than the contracted amount. Since the amount was less than the euro, DAP approved the amount from the invoice, and for such small difference, DAP does not normally ask for an explanation, but only records it. In the future DAP will approach with more attention.

Conclusion by the AA:

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: This finding has a financial impact of 0,26 EUR (EU contribution) for project 21-03-1-0067.

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

Considering that AA issued final engagement report on 11th March 2024, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2024.

<p>Level of importance: Minor</p>	<p>Body and area concerned: Authorization of projects</p>
<p>Finding number and title: 11. Inadequate code of eligible expenditure under application ID No. 21-03-1-0009 (ref 4.1.5. of final report of audit of operations for Q3)</p> <p>*result of compliance testing</p>	
<p>Project(s) concerned: ID No. 21-03-1-0009 (Contract ref. No. 09-908/21-15025/26), Measure 1</p>	
<p>Description of the finding:</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>List of eligible expenditure for implementing measures under IPARD II programme is presented as Annex 2 to the “Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union” (hereinafter: Decree) as well as Annex 1 to the public calls. For each investment activity that is eligible for financing, there is a corresponding specific code from the List of eligible expenditure.</p> <p>According to DPAP Manual of Procedures version 2.3, while performing the eligibility check of the application, advisors for advertising and authorization of projects shall check the eligibility of each investment activity (item) from the offers received by recipients and mark the appropriate codes from the List of eligible expenditure.</p> <p>During compliance testing of recipient with application ID No. 21-03-1-0009 and Contract No. 09-908/21-15025/26 (Project of planting 2 ha of olive trees in the area of Donji Zagarač), under Measure 1, the AA auditors have identified inadequate assigned codes to the certain eligible expenditures within Contract for allocation of funds.</p> <p>Namely, for the offer related to: transportation of the necessary planting material, mechanical excavation of the hole, removal of the barren part from the pit and backfilling of the hole, as well as for the offer for ground preparation (preparation of the geodetic base, staking out places for planting, grubbing and removal of existing vegetation, etc.) advisors wrongly assigned code 1-3.2.2, which refers to “Equipment for raising, restructuring perennial plant crops (poles, wires, anchors, cables, clips, tensioners and for land preparation)”. The AA considers that investment activities from the mentioned offers refer to code 1-3.1.11 which implies “Investments in the preparation and improvement of land for existing plantings and plantings that will be established during the realization of this investment (e.g. anti-erosion activities, drainage, terracing and land conversion)”.</p>	
<p>Recommendation:</p> <p>IA's advisors should authorize projects with due diligence in order to avoid deficiencies with potential financial impacts. Although the identified deficiency does not have a financial impact, inadequate assignment of codes for eligible expenditures may lead to such occasion.</p>	
<p>Auditee's response: Recommendation not accepted.</p> <p>Namely, the subject of the Third Public Call for the allocation of support funds for Measure 1 "Investments in the physical capital of agricultural farms" published on November 10, 2021 was investments in the physical capital of agricultural farms and eligible costs related to the acquisition of new equipment, machines and devices, mechanization, planting of perennial plantations, construction and/or reconstruction of greenhouses and general costs (which may arise even before the submission of the</p>	

Request for the allocation of support funds), except for investments in construction and/or reconstruction given in Annex 1 - List of eligible costs for Measure 1.

In the specific case, the investment refers to the planting of perennial plants, i.e. the preparation of the ground for raising the plants, which is recognized by the code 1-3.2.2 "equipment for raising, restructuring the plants of perennial plants (poles, wires, anchors, cables, clamps, tensioners) and land preparation)"

As the invitation in question did not recognize investments related to construction and/or reconstruction, we are of the opinion that it was not possible to assign 1-3.1.11 to the subgroup of code 1-3.1 which refers to construction for "Investments in preparation and improvement of land for existing plantings" and plantings that will be placed during the implementation of this investment (eg anti-erosion activities, drainage, terracing and land conversion)".

Auditor's final conclusion:

According to the List of Eligible expenditure for Measure 1, as categories of eligible expenditures for Fruit, vegetable and arable, viticulture, and olive sector, among others are **1-3.1** Construction and/or reconstruction and **1-3.2** Equipment, machines and devices.

Subject of third Public Call for Measure 1 were investments in the physical capital of agricultural holdings and acceptable costs related to the acquisition of new equipment, machines and devices, mechanization, **planting of perennial crops**, construction and/or reconstruction of greenhouses and general costs (which may arise even before submitting), except for investments in construction and/or reconstruction given in Annex 1 - List of eligible costs for Measure 1.

As planting of perennial crops was eligible for the third public call, for investment item purchase of olive seedlings, IA advisors assigned code **1-3.1.10** "Purchase of planting material of perennial plant crops". As IA assigned code from construction category for purchase of olive seedlings, the same should have been done for investment items from offers presented in the finding, i.e. to assign code 1-3.1.11 "Investments in the preparation and improvement of land for existing plantings and plantings that will be established during the realization of this investment (e.g. anti-erosion activities, drainage, terracing and land use conversion)" which is related to planting of perennial crops.

On the other hand, Equipment for raising, restructuring perennial plant crops (poles, wires, anchors, cables, clips, tensioners and land preparation) (code **1-3.2.2**),³² is a subsection of equipment category. None of the investment items from the offers explained in the finding falls into the category of equipment for land preparation.

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: This finding has no financial impact.

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

Considering that AA issued final engagement report on 24th January 2024, the AA will follow up and report about actions taken by the auditee within AAAR for FY 2024.

5.8.2 Non-operational transactions

5.8.2.1 Substantive testing of irregularities/debts

³² Third public call for Measure 1

The AA performed dual purpose testing, i.e. substantive and compliance testing of irregularities/debts. One formal error is identified.

Findings:

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

- 1) Deficiencies in compiling Debtors ledger

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

The AA performed dual purpose testing, i.e. substantive and compliance 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

The AA performed dual purpose testing, i.e. substantive and compliance testing of IEA.

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 rate³³) 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 5.7.1

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 5.7.1 of this Report, total error rate is bellow 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.

³³ As defined in Article 28(14) of Commission Delegated Regulation (EU) No 480/2014.

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 operations³⁴, including flat rate or extrapolated corrections.

There weren't any self-corrections during the FY 2023.

5.12 Residual total error rate³⁵ 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 2023 IPARD Agency has processed and reported 8 cases of irregularities to AFCOS office/ Irregularity Management system (hereinafter: IMS), 4 from AA findings and 4 initiated by IA. All new cases have financial impact. Out of 8, four cases are already closed due to recovery of the funds.

At the moment, in the IMS, 10 cases are open, 4 from this year and 6 from previous period. Details from the IMS with relevant dates are presented in table below:

Application ID number	Detecting date of suspicion of irregularity	Institution which detected suspicion of irregularity	Date of Report for suspected /detected irregularity	Amount to be recovered		Date of decision on recovery of funds/return receipt	Date of recovery of funds	Case status
				EU part	National part			
18-01-1-0228	4 th March 2020	Audit Authority	17 th September 2020	48.900€	16.300€	30 th September 2020 / 12 th October 2020	Not recovered yet (written-off – 30 th September 2022)	Open

³⁴ This concerns both corrections on the audited sample units and corrections implemented as a result of the total error rate.

³⁵ Total errors minus corrections referred to in paragraph 5.11, divided by the total population.

18-01-3-0303	25 th December 2020	Audit Authority	12 th 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	13 th September 2021	/	/	/	/	Open
18-01-1-0242	15 th April 2021	IPARD Agency	12 th January 2022	/	/	/	/	Open
18-01-1-0134	16 th September 2021	IPARD Agency	28 th March 2022	/	/	/	/	Open
18-01-1-0201	10 th November 2021	IPARD Agency	28 th March 2022	/	/	/	/	Open
18-01-3-0004	7 th June 2022	IPARD Agency	28 th April 2023	49,59 €	16,53 €	12 th April 2023/12 th April 2023	9 th May 2023	Closed
19-02-30-0018	2 nd March 2023	Audit Authority	14 th September 2023	180,25€	60,08€	14 th March 2023 / 14 th March 2023	20 th March 2023	Closed
19-02-3-0030	2 nd March 2023	Audit Authority	12 th September 2023	4.078,25€	1.359,42€	3 rd April 2023 / 11 th April 2023	31 st May 2023	Closed
18-01-3-0014	2 nd March 2023	Audit Authority	14 th September 2023	27,41€	9,14€	14 th March 2023 / 29 th March 2023	5 th April 2023	Closed
20-02-1-0175	21 st April 2022	IPARD Agency	28 th September 2023	5.764,46€	1.921,49€	1 st December 2023 / 11 th December 2023	18 th December 2023	Open
20-02-1-0065	7 th August 2023	IPARD Agency	31 st December 2023	91.973,89€	30.657,97€	24 th October 2023	26 th October 2023 / 15 th November 2023	Open
20-02-1-0107	22 nd August 2023	IPARD Agency	23 rd August 2023	99.394,24	33.131,42	/	/	Open

22-04-3-0023	10 th November 2023	Audit Authority	29 th December 2023	3.277,50€	1,092.50€	26 th January 2024 / 1 st February 2024	1 st February 2024	Open
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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 of FY 2022 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, this case is still open in the IMS, the IA regularly calculated interest and at the end of FY 2023 interest amounted 7.532,66 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 (28.333,5 €) has been deducted from the approved funds for 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, even though the amount has been recovered, the case is still open in IMS and monitored.

Regarding findings from AAAR 2022 (section 5.8.1), related to recipients with ID No. 19-02-3-0030 (Contract No. 321-4462/19-52), ID No. 19-02-3-0018 (Contract No. 321-4433/19-29) and ID No. 18-01-3-0014 (Contract No. 321-2099/18-37), firstly, these cases had been wrongly classified as administrative errors and thus these cases were not treated as irregularities and were not presented in Debtors ledger although recipients recovered funds on IEA. This deficiency is described in the part 7.1 (IV part). However,

after meeting between AA and IA/MS where it was explained that such cases should be treated as irregularities and consequently debts, above-mentioned cases are subsequently entered in IMS in FY 2023. Recipient with ID No. 19-02-3-0030 recovered funds on 31st May 2023 in total amount 5.437,67 € (EU and national contribution) based on Decision on recovery of funds from 3rd April 2023. Recipient with ID No. 19-02-3-0018 recovered funds on 20th March 2023 in total amount 240,33 € (EU and national contribution) based on Decision on recovery of funds from 14th March 2023. Recipient with ID No. 18-01-3-0014 recovered funds on 5th April 2023 in total amount 240,33 € (EU and national contribution) based on Decision on recovery of funds from 14th March 2023. Considering above mentioned, these cases are closed in the IMS.

Regarding AA findings from FY 2023 (section 5.8.1), there is one registered case, related to recipient with ID No. 22-04-3-0023 (Contract No. 09-908/22-3211/14). Recipient recovered funds on 1st February 2024 in total amount 4.370,00 € (EU and national contribution) based on Decision on recovery of funds from 26th January 2024, but case is still open in the IMS.

Beside these cases, which were initiated by AA, there were 4 new cases with financial impact initiated by the IA in FY 2023.

First one is related to the recipient with ID No. 18-01-3-0004 (Contract ref. 321-2098/18-39) in amount total amount of 66,12 € (EU and national contribution). Decision on recovery of funds was issued on 12th April 2023 and funds were recovered by recipient on 9th May 2023 in total amount of 66,32 € (with the corresponding interest in amount 0,20 €). Case is closed in IMS.

Second one is related to the recipient with ID No. 20-02-1-0175 (Contract ref. 09-908/20-10759/52). Decision on recovery of funds was issued on 1st December 2023 and funds were recovered by recipient on 18th December 2023 in total amount of 7.685,95 €. Case is still open in the IMS.

Third irregularity is related to the activation of bank guarantee for recipient with ID No. 20-02-1-0065 (Contract ref. 09-908/20-10473/28). Decision on activation of bank guarantee was issued on 24th October 2023. Funds are recovered on 26th October 2023 on the main state treasury account in total amount of 122.631,86 €, while EU part in amount of 91.973,89 € was transferred to the IEA on 15th November 2023. Case is still open in the IMS.

Fourth irregularity is related to the recipient with ID No. 20-02-1-0107 (Contract ref. 09-908/20-10671/26) in total amount 132.525,66 €, but Decision on recovery of funds has not been issued yet and case is still open in IMS.

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 5.8.1, for each finding separately. There were four findings with financial impact in amount of 7.197,98 € (EU part) but none of them could be considered as systemic in nature). One recipient already recovered funds on 1st February 2024 in total amount 4.370,00 € (EU and national contribution) based on Decision on recovery of funds from 26th January 2024. For recipient with ID No. 21-03-1-0009 (Contract ref. No. 09-908/21-15025/26) Decisions on recovery of funds is already prepared. For the remaining two findings, the procedure is ongoing.

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 on sampled 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 controls”, as presented in sections 4.4.2 as well as 5.8 of this Report.

Considering that IA declared expenditures regarding 97 transactions in FY 2022 and that during FY 2023 IA executed and declared 142 (112 final, 14 interim and 16 advance) 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. At the end of 2023 Montenegrin authorities achieved target to be spent (annual declaration 8.578.964,25 €) and there was no de-commitment.

The AA's sample covered 26 transactions (20% from the sum of final and interim payments) which were tested within substantive testing, while for 12 of them AA conducted tests of controls. As a result of audit work, 4 deficiencies with financial impact were identified, but none of them indicate that errors have systematic nature. Overall conclusion indicates proper functioning of controls.

Furthermore, by the letter Ref. Ares (2023) 8340198 from December 6th 2023, DG AGRI informed on decision for granting an exceptional extension for the implementation of budgetary commitment 2020 under the IPARD II programme to Montenegro by one year (N+3 to N+4). In that respect, all remaining IPARD II expenditure needs to be implemented (incurred and paid to IPARD recipients) by December 31st 2024.

IPARD authorities should immediately take all the necessary measures to speed up the implementation of IPARD II programme, so that the remaining funds reach IPARD recipients without further delays, and no later than December 31st 2024, thus, 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, especially taking into consideration parallel implementation of IPARD II and IPARD III programme during FY 2024.

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 were no other bodies/persons involved in audit 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	Part of the AAAR
			General	IPARD			
AA	Rina Mucaj Demirovic	Authorized Auditor / Head of Department for audit of the program of agricultural and rural development	10 years and 9 months	10 years and 9 months	P	Certified auditor/ State auditor	All listed members were involved in the preparation of this Report
	Marko Tomčić	Authorized Auditor	5 years and 11 months	5 years and 11 months	P	Certified auditor/ State auditor	
	Marija Perović	Authorized Auditor	7 years and 3 months	7 years and 3 months	P	Certified auditor/ State auditor	

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 2023-2025, DG AGRI Guideline no 2 on the Audit Strategy, Guideline no 5 "IPARD II Annual Accounts" and Audit Authority's manual of procedures v.1.1.

The audit of accounts focuses primarily on the information in the financial reports submitted by the NAO on 15th February 2024, taking into consideration quarterly declarations of expenditure submitted to the European Commission for the financial year 2023 (in April, July, October 2023 and January 2024) as well as accounting records and other information received from the NFD and IPARD 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. carried 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 / NFD 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 2023 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) Deficiencies in compiling Debtors ledger

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

Level of priority: Intermediate

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

According to the Sectoral Agreement, Article 45 Content of the Annual accounts:

The annual accounts, composed of the annual financial reports and statement referred to in Article 59(2)(a) of the FWA shall include:

(a) 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 D 2 as set out in Annex 6 to this Agreement;

(b) 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;

(c) the table of the amounts to be recovered at the end of the financial year (debtors ledger);

(d) a list of all payments made in the financial year in line with Annex 9 to this Agreement.

According to Guideline No 5 IPARD II Annual Accounts, the debtors' ledger should contain the columns provided in the Annex 1 to this Guideline. For each amount a clear separation between EU and national part should be visible. Therefore, from the debtor's ledger one should be able to see the full cycle of the debt, from the time the irregularity was first noted until the time the debt has been recovered or written-off. In addition, the debtors' ledger should not only provide information on individual debts but also provide summary information on the amount of total, national and EU parts of the principal amounts and amount of interest calculated to be recovered from the debtor. In general, these sums should be corresponding to the amounts declared in the Annual declaration, but in case of any differences an explanation should be provided to the Commission together with the debtors' ledger.

During audit of accounts for FY 2023, the AA auditors identified certain deficiencies regarding compiling the Debtors ledger. Namely, Debtors ledger which was sent to the EC on 15th February 2024, as part of Annual account package, does not include all debts incurred in FY 2023. Debt regarding recipient with ID No. 20-02-1-0065 (Contract ref. 09-908/20-10473/28), which has been recovered and already deducted from D1 for Q4 FY 2023 is not included in the submitted Debtors ledger, although it is presented in the Debtors ledger accompanying the fourth quarterly declaration (D1) for FY 2023. Debt was recovered in total amount of 122.631,86 EUR (91.973,89 EUR EU part and 30.657,97 EUR national part) and thus, this deficiency has no financial impact on correctness of the annual accounts. However, Table of differences which was also submitted in addition to annual declaration, shows recovery of funds regarding this debt, while from submitted Debtors ledger for FY 2023, it is not possible to see the full cycle of the debt, from the registration until the time the debt has been recovered, since the debt has not been presented at all. Consequently, documents submitted to the EC are not aligned and no additional explanation of the difference has been provided.

Furthermore, the AA auditors noticed that columns regarding total amounts of Opening balance (1/1/2023) and Closing balance (31/12/2023) in Debtors ledger are calculated incorrectly since they do not present the sum of principal and interest amount. Namely, for recipient with application ID No. 18-01-1-0228

(Contract ref. 321-1349/18-10), whose debt was written off, the principal is 0,00 EUR, while interest remained 7.532,66 EUR. Consequently, in the above-mentioned columns, total sum of the principal and interest should be 7.532,66 EUR, instead of presented amount (0,00 EUR).

AA would like to highlight that taking into consideration that Annual declaration (D2) contains only principal amount of debts, there is no financial impact on correctness of the annual accounts, however, AA considers that each document should present information which are prescribed by form of document itself.

Recommendation:

Content of Annual accounts should be harmonized. Therefore, 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 in AAAR for FY 2022³⁶. 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 2022 or earlier as well as follow up of Action plans related to conditional entrustment of Measure 7, reservation issued with the AMD for 2020 and 2022.

Findings and recommendations from audits carried out by AA in previous years:

***I part** - Findings and recommendations identified during system audit from final report issued on 30th January 2023 – No. 3011-1-06-74 including relevant management response*

***II part** - Findings and recommendations identified during audit of operational transactions from final reports issued on 2nd December 2022 – No. 3011-2-06-540 including relevant management response*

***III part** - Findings and recommendations identified during audit of operational transactions from final reports issued on 2nd March 2023 – No. 3011-2-06-171 including relevant management response*

***IV part** - Findings and recommendations identified during audit of accounts from final report issued on 9th March 2023 – No. 3011-3-06-183/2 including relevant management response*

³⁶ Findings considered as closed within FY 2022 or earlier are not part of this Report.

V 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

VI 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

VII 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

VIII 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



IX 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

X 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

XI 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.

XII 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.

XIII 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.

AAAR	Finding	Follow-up January 2024
I part - Findings and recommendations identified during system audit from final report issued on 30th January 2023 – No. 3011-1-06-74 including relevant management response		
<p>1.</p> <p>Refer to System Audit Final report (30/01/2023)</p> <p>4.1.1</p>	<p>Non-compliance of Manual of procedures of DAP with Decree for implementation of measures regarding deadline for recovery of funds</p> <p>Level of priority: Major Body/-ies concerned by the finding: IPARD Agency</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The AA recommends the following:</p>	<p>Closed</p> <p>New exception has been approved by Deputy of NAO in order to align the procedures with the deadline from the Decree. Additionally, by checking latest Decision on recovery of funds, AA determined that it is issued in accordance with the Decree (30 instead of 15 days). Consequently, AA considers this finding as closed.</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  Rješenje o povraćaju - Naše voć </div> <div style="text-align: center;">  4.1.1. and 4.1.2 - Exception DAP and I </div> </div>

- 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 reply 2023
The implementation of the recommendation will be further monitored.

2.

Refer to System Audit Final report (30/01/2023)

4.1.2

Insufficiently defined procedures regarding underpayments

Level of priority: Intermediate
Body/-ies concerned by the finding: IPARD Agency

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.

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.

Partially closed

Exception to procedures was approved by Deputy NAO on May 2023 and according to it rules regarding underpayments have been introduced. However, by analyzing defined procedures, AA noted that they are not in line with the Guideline No 2. since they envisage that calculated amount which will be recovered to recipient will be 75% EU and 25 % national part, while according to the Guideline, underpayments are formal errors and do not have financial impact which means that underpaid amount should not be paid from the EU funds.

	<p>The AA recommends the following:</p> <ul style="list-style-type: none"> • 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. <p>AA reply 2023</p> <p>The implementation of the recommendation will be further monitored.</p>	
<p>3.</p> <p>Refer to System Audit Final report (30/01/2023)</p> <p>4.1.3</p>	<p>Non-fulfilment of DIA's Annual Audit Plan</p> <p>Level of priority: Intermediate</p> <p>Body/ies concerned by the finding: IPARD Agency</p> <p>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.</p> <p>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".</p> <p>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,</p>	<p>Closed</p> <p>AA confirms that DIA conducted all three planned audits from Annual Audit Plan for 2023, as well as missing audit for 2022. According to the Training register, AA notes that internal auditors have attended several trainings in 2023. Additionally, new Rulebook on the systematization of the Ministry of Agriculture, Forestry and Water Management was adopted in 1st March 2024 by the Government of Montenegro and according to it a separate organisational unit for internal audit of EU funds and other donor funds in the area of agriculture, forestry and water management has been established.</p> <p>Consequently, this finding is considered as closed.</p>

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

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 reply 2023

The implementation of the recommendation will be further monitored.

II part - Findings and recommendations identified during audit of operational transactions from final reports issued on 2nd December 2022 – No. 3011-2-06-540 including relevant management response

1.
Refer to Audit of operations Final report (2/12/2022)

4.1.1

Ineligible expenditure related to Recipient under application ID No. 18-01-3-0004

Level of priority: Major
Body-ies concerned by the finding: IPARD Agency

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. 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

Closed

The AA determined that Recipient recovered funds on 5th April of 2023. Further, the AA determined that employees of Department for on the spot control have regular meetings where they discuss a number of topics to improve conducting of on the spot control.

Taking into account above-mentioned, this finding can be considered as closed.

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.

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.

AA reply 2023

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.

2.

Refer to Audit of operations Final report (2/12/2022)

4.1.2

Ineligible expenditure related to Recipient under application ID No. 19-02-3-0018

Level of priority: Major

Body/ies concerned by the finding: IPARD Agency

ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.

During 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.

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:

Closed

The AA determined that Recipient recovered funds on 20th March of 2023. Further, the AA determined that employees of Department for on the spot control have regular meetings where they discuss a number of topics to improve conducting of on the spot control.

Taking into account above-mentioned, this finding can be considered as closed.

- 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:

$$18,63 \text{ m}^2 \times 4,50 \text{ EUR} + 18,63 \text{ m}^2 \times 16,00 \text{ EUR} + 18,63 \text{ m}^2 \times 1,00 \text{ EUR} = 83,84 \text{ EUR} + 298,08 \text{ EUR} + 18,63 \text{ EUR} = 400,55 \text{ EUR} \times 60\% = 240,33 \text{ EUR}$$

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.

AA Reply 2023

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.

III part - Findings and recommendations identified during audit of operational transactions from final reports issued on 2nd March 2023 – No. 3011-2-06-171 including relevant management response

1.

Ineligible expenditure related to Recipient under application ID No. 19-02-3-0030

Closed

Refer to Audit of operations Final report (2/3/2023)

Level of priority: Major

Body/ies concerned by the finding: IPARD Agency

After analysing supporting documents, the AA confirms that recipient recovered funds on the 31st of May 2023 in amount 5.437,67 EUR (EU part 4.078,25 EUR and national part 1.359,42 EUR).

4.1.1

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.

Given recommendation is implemented and this finding is considered as closed

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.

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:

$$45,00 \text{ EUR} \times 215 = 9.675,00 \text{ EUR}$$

$$9.675,00 \text{ EUR} \times 50\% = 4.837,50 \text{ EUR}$$

- 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.

Calculation is presented below:

$$16,00 \text{ EUR} \times 14,61\text{m}^2 + 15,50 \text{ EUR} \times 62,36\text{m}^2 = 1.200,34 \text{ EUR}$$

$$1.200,34 \text{ EUR} \times 50\% = 600,17 \text{ EUR}$$

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).

AA reply 2023

The implementation of the recommendation will be further monitored.

IV part - Findings and recommendations identified during audit of accounts from final report issued on 9th March 2023 – No. 3011-3-06-183/2 including relevant management response

1.	Inadequate classification and treatment of overpayment <i>Level of priority: Major</i>	Partially closed
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Refer to Audit of
Accounts Final report
(9/3/2023)

4.1.1

Body-ies concerned by the finding: IPARD Agency

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

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. 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.

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 Reply 2023

As regards recipient with ID No.18-03-004 (Contract reference 321-2098/18-39), recipient recovered funds on 5th April of 2023 and the case was subsequently entered in Irregularity register and reported in IMS.

After issuance of the AAAR for FY 2022, the AA identified that three more cases were treated in the same way as the one mentioned, i.e. as administrative error. These three additional cases refer to AA's findings presented in AAAR 2022 (section 5.8.1, finding number 1 - recipient with ID no 18-01-3-0014 and Contract No. 321-2099/18-37; finding number 2 - recipient with ID no 19-02-3-0018 and Contract No. 321-4433/19-29; finding number 3 - recipient with ID no 19-02-3-0030 and Contract No. 321-4462/19-52). IA had proceeded these cases in the same way as the one that was subject to out finding, i.e. these cases were entered into Register of indicators only, although they should had been presented and reported as irregularities and in accordance with it entered into Irregularity register and Debtor's ledger. However, after meeting between AA and IA/MS where it was explained that such cases should be treated as irregularities and consequently debts, above-mentioned cases are subsequently entered in IMS. Given the fact that initially these cases were treated as administrative errors, the same had not been entered into Debtor's ledger in accordance with Guideline No 5 – Chapter 2.6.1. However, decisions for recovery of funds were made and AA confirms that all recipients returned the funds.

During audit of sampled transactions in FY 2023, the AA had insight in new decisions for recovery of funds and determined that irregularities were correctly recognized and classified.

Considering that there are only these four isolated cases presented as administrative errors instead of irregularities/debts and since the related amounts were recovered and credited to the IPARD Euro account, the AA considers that this issue cannot be classified as systemic.

	<p>According to the DG AGRI's Annex 2 to Guideline 2 - Error evaluation, administrative errors are undue payments not resulting from irregularities committed by the recipients but from an error made by the national administration (normally, the IPARD Agency).</p> <p>As deficiencies within this investment, which were identified by the AA, refer to non-compliance of the investment with the main project and submitted invoice, the error cannot be identified as administrative, despite the fact that the IA made certain omissions during on the spot verification of the investment. Recipient's obligation is to implement the investment in accordance with the main project and on the spot control omissions cannot affect the classification of errors as administrative.</p> <p>The implementation of the recommendation will be further monitored.</p>	<p>Even though IA acted correctly after our communication, AA considers this finding partially closed and the implementation of recommendation will be further monitored</p>
<p>2.</p> <p>Refer to Audit of Accounts Final report (9/3/2023)</p> <p>4.1.2</p>	<p>Deficiencies in the filling out annual financial reports and statements</p> <p>Level of priority: Intermediate Body/-ies concerned by the finding: NAO-NF / IPARD Agency</p> <p>ICF requirement 3. (a)(ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles.</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 of the Sectoral Agreement, annual financial reports and statement referred to in Article 59(2)(a) of the FWA shall include among others:</p> <ul style="list-style-type: none"> • 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 	<p>Closed</p> <p>Bearing in mind that during the preparation of the Annual Financial Reports for FY 2023, no similar deficiencies were identified, AA considers this finding as closed.</p>

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.

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 reply 2023

As regards auditees' response related to Form D1 for 3rd quarter, the AA emphasize that DAB procedures prescribe that all the written off debts should be deducted from the next DP-DAB-00-19 "D1- Declaration of expenditure and revenue". Also, considering fact that both parts, EU and national, were written-off in debtor's ledger, this accounting information should have been presented in D1 in accordance with Article 47 (1) of SA as well.
The implementation of recommendation will be further monitored.

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

1.

Lack of efficiency in gathering documentation

Body/-ies concerned: IPARD Agency
Level of priority: Intermediate

ICF requirement 3. (c) Policies and procedures related to control activities.

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.

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.

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.

Refer to System Audit Final report (31/01/2022)

4.1.2

Closed

Until this moment, the IA ex officio requests documents from the CRPS and Ministry of Justice, Human and Minority rights. Also, proof that entities are registered in relevant registers of processing are obtained from the MAFWM. Additionally, according to changes in the procedures in 2023, IA can request and recipient can submit documents by email, which further facilitates communication. Consequently, the AA considers this finding as closed.

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.

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.

AA reply 2023

Partially closed

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.

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

1.
Refer to Audit of operations Final report (26/01/2022)

Deficiencies in the process for verification of reasonableness of costs
(in accordance with observations from Acceptance of Accounts FY 2021, Ref. Ares(2022)5126621 – 14/07/2022)
Body/-ies concerned: IPARD Agency
Level of priority: Intermediate

Partially closed
Conducting audits during 2023, the AA found that the period of 2 months between requesting an opinion of EvC and issuing an opinion, on a sample of 8 recipients, in 4 of them was breached, thus, AA considers since neither this deadline of 2 months is not respected, this part of the finding remains open.

4.1.1

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.

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:

- 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.

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.

- 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 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.

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.

- 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.

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.

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:

- 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 whole. This is extremely important because there is a difference in the approved variations depending on the value that is subject to assessment.

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.

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 $112.687,17 + 15\% = 129.565,04$.

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.

- 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 ($(151.128,50 - 112.687,17) / 112.687,17 = 0,34 * 100\% = 34\%$)

- 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.

- 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.

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.

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.

The AA recommends the IA to:

- 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,
- 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. 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.

AA reply 2023

Partially closed

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 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.

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.

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.

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.

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 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.

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

1.

Inadequate recording and reporting of irregularities

Body/-ies concerned: IPARD Agency
Level of priority: Intermediate

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".

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

- **Non-compliance of Manual of irregularity with Guidelines on irregularity management issued by AFCOS Office of Montenegro** (hereinafter: Guidelines) - Irregularity register according to Manual of irregularity doesn't have all relevant columns which contains Irregularity register prescribed by Guidelines such as:
 - 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;

Refer to System Audit Final report (10/02/2021)

4.1.1

Partially closed

Analyzing the relevant documentation related to irregularities, a large gap is still observed from the moment of receiving information about the existence of suspicious on irregularities to its determination.

In order to accelerate this process, on October 5th, 2023, representatives of AA and AFCOS office held a meeting where it was decided to send a short summary (which audit is in question and a list of major and intermediate findings) of the final reports for all audits, in the shortest possible time, so that they would initiate activities with IA/DMS regarding the irregularities and in that way influenced the acceleration of the process of starting the procedure for determining the irregularities.

Also, by reviewing the documentation, it was noticed that Reports on suspected/detected irregularity (DP-01-01) for each individual case was issued on the same day as Conclusions on irregularity, although the Report (DP-01-01) must be filled out immediately after receiving suspicions of the existence of irregularities. After filling in this form, the procedure for determining the irregularity begins, which includes the adoption of the Conclusion on the determined irregularity, which should be brought after 30 working days from the day of the start of the

- Temporary measures for protection of financial interests;
- Initiated procedure for irregularity identification;
- Suspicion of fraud;
- Established irregularity;
- Date of issuing Conclusion on established irregularity / non-existence of irregularity;
- Report included in IMS system;
- Reference number in IMS system;
- Breached provisions of European Union law;
- Conducted control through which irregularity was identified;
- Description of irregularity;
- Date of closing the case;
- Institutions informed on the irregularity;
- Remarks.

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

- **Non-completion of Irregularity alert form according to Guidelines** - According to Guidelines Implementing agency **immediately** assessed truthfulness of received information on suspected irregularity. Depending on whether further investigation is needed, the Agency should fill in the envisaged space "further proceeding point A or B" in Irregularity Alert Form (Annex 1 of Guidelines). Instead the IPARD Agency uses their

procedure for determining the irregularity). Furthermore, certain delays are noticed regarding reporting in IMS.

The implementation of recommendation will be further monitored.

form prescribed by Manual of irregularity (Report on suspected/detected irregularities – DP-01-01) which is not aligned with prescribed annex from Guidelines, and which employee fulfils within three days after discovery of the irregularity and submits it to IO. Also, IA doesn't fulfil this report for every suspicion, but only for confirmed one which doesn't provide adequate audit trail about all reported cases, initiated proceedings and relevant conclusions about it. At the same time, according to the Guidelines, IA should send every Irregularity alert form to the NAO, DMS, AFCOS and Head of MA which is not applied in practice.

- **Untimely reporting and inefficiency in proceeding irregularity cases** - Guidelines for the completion of the standard form for quarterly communications of irregularities in connection with the Instrument for Pre-Accession Assistance (IPA) issued by OLAF prescribe obligation for beneficiary countries within the IPA programme to report immediately to the Commission every irregularity as well as to undertake recovery proceedings. (Point 8, page 3). Also, according to Manual of irregularity (Chapter 9-Reporting irregularities, 9.1.1-Initial reporting) and Guidelines (Chapter VI-Reporting on identified irregularities, VI.2- Initial reporting) the Implementing agency immediately submits to AFCOS Office an initial report in the framework of IMS system. Therefore, during system audit certain delays were noted regarding cases recorded in Irregularity Register.

Irregularities regarding these cases are confirmed and some of them submitted to AFCOS as following: 1) Recipient with ID No 0278 - irregularity noticed by AA report on 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 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.

- **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.

Bearing in mind the above-mentioned observations, the AA recommends the following:

- **Completing the form of Register of irregularities** by adding the columns prescribed by Guidelines on irregularity management which would provide a clearer insight into the whole process of irregularity management and its duration from getting information of existence of suspicion of irregularity to closing the case.

- **Completion of the Irregularity Alert Form** prescribed by Guidelines (Annex 01). In accordance with observations set out in point 2 of this finding, we recommend IPARD Agency to use the Irregularity Alert Form prescribed by Guidelines in order to have clear trail regarding every received information about suspected irregularity regardless of whether there was a need for further investigation upon it or not and to have recorded when proceedings for identifying the irregularity have been initiated as well, which cannot be concluded based on current form which IPARD Agency uses (DP-01-01). In addition, IA should inform all relevant stakeholders about suspicion of irregularity as prescribed by Guidelines.
- **Efficient proceedings with irregularity cases** – as it was stated in point 3 of this finding Guidelines (OLAF and AFCOS) prescribe obligation for IA to report immediately to the Commission every irregularity as well as to undertake recovery proceedings. Average time for reporting of irregularity (from the date of information leading to a suspicion to the date of IMS registration) is more than 3 months which could not be interpreted as immediately. IA should ensure more efficiency in this process and make efforts to immediately report every case to AFCOS.
- **Issuing a Conclusion on irregularity** – in order to meet requirements, set out in Guidelines, we recommend IPARD Agency to issue a Conclusion on irregularity (Annex 03) which would provide detailed description of irregularity cases.
- **Completion of the Register of irregularities** – regarding observations set out in point 5 of finding, we recommend IPARD Agency to record all cases in the Register of irregularities for which the suspicion of irregularities has been reported, for the purpose of easier monitoring of the further course of events related to these cases and prevention of the occurrence of irregularities or fraud.
- **Filling in the Table 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.
- **AA reply 2023**

Partially closed

	<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>	
<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</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 2023. Namely, this annex does not contain adoption of IPARD II program v1.5 from October and v1.6 from December 2023.</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>

is necessary to put them all in one document, which will be available to IA employees and to other interested parties

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 reply 2023

Partially Closed

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.

The AA recommends that the aforementioned annex should be regularly updated, so the IA employees can be informed at all levels about key changes.

The implementation of recommendation will be monitored.

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.

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

<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</p> <p>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>IA submitted to the AA the documentation regarding MAFWM premiums which are paid based on head of cattle. One of the documents is Agricultural Holding Data obtained from the Administration for Food Safety, Veterinary and Phytosanitary Affairs. According to received documents, recipient still fulfills minimum requirements (5 cows).</p> <p>Additionally, considering DG AGRI letter concerning acceptance of accounts under IPARD for financial year 2020 for Montenegro, where</p>
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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 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.

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.

this amount was not included in the calculation of the total error, as well as DG AGRI Reply from 22nd December 2023 related to checking minimum requirements in the monitoring period, AA considers this finding as **closed**.

Auditor's final conclusion:

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.

AA reply 2023

Remains open

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.

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

1.

Unequal approach of the evaluation committee

Body/-ies concerned: IPARD Agency
Level of priority: Major

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.

Remains open

AA's recommendation remains the same. The IPARD Agency should 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.

Refer to Audit of operations Final report (10/02/2021)

4.1.2

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:

- 1) reference price database and or
- 2) comparisons of different offers; and or
- 3) evaluations of the evaluation committee.

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 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 inverter (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

DG AGRI Letter PRE/2021/001/ME/RCOL – Ares (2023) 3223301 – 08/05/2023 also states that the reasonableness of cost was not assessed properly by the IPARD Agency.

The implementation of the recommendation will be further monitored.

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 inventor, average price according to Evaluation Committee's market research is 1.896,56€ without VAT. Accepted and paid amount to the supplier is 2.480,00€ without VAT, which means that it is 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.

AA reply 2023

Remains open

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.

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.

2.

Failure in notification about performed hidden works

Body/-ies concerned: IA
Level of priority: Intermediate

ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.

According to 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.”

In line with abovementioned, Article 8 (11) of Contract for allocation of funds states: “The Recipient is obliged to inform by letter or telephone or mail the Directorate for the timeframe for performing the hidden works during mounting of equipment which 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,

Refer to Audit of operations Final report (10/02/2021)

4.1.5

Partially closed

During audit of operational transactions in FY 2023, the AA determined that recipients who were obliged to provide evidence about hidden work, submitted pictures and videos of mentioned works. However, until adoption of exceptions regarding hidden works, the implementation of the recommendation will be further monitored.

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.

The AA recommends the IA to initiate necessary steps in order to ensure compliance with the provisions of the FWA and Contract for allocation of funds and to prevent possible misuse and manipulation of IPARD funds. Recipients should inform IA about hidden works, particularly when such works could not be confirmed by third party documents.

**AA reply 2023
Partially Closed**

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 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.

The implementation of the recommendation will be further monitored.

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

1. Shortcomings in compiling the Balance Sheet

Refer to Audit of accounts Final

**Body/-ies concerned: NAO/NF
Level of priority: Intermediate**

Remains open

Considering that there was no improvement regarding this finding, AA conclusion from previous year still remains.

The implementation of the recommendation will be further monitored.

report
(04/03/2021)

4.1.1

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.

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

1) Amounts presented in the following accounts have been miscalculated:

- account 115-1 (receivables from EC) – according to Manual of procedures for Accounting IPARD

of Directorate for Management Structure account 115-1 should be used for recording of receivables from EC. During the review of documentation related to the audit of annual accounts, which includes analytical cards of accounts, financial reports, requests for funds, changes in the IPARD Euro account etc., it could be concluded that the balance on the

above-mentioned account should be zero instead of amount of -625,81 which is presented in the Balance Sheet. This miscalculation was caused by wrong recording of “Form D1 – Declaration of expenditure and revenue which should be recorded in gross amount instead in net amount of funds.

Furthermore, the total number of receivables amounts 49.594.75 instead of 48.274.19 (account 115);

- account 115-7 (receivables for interest on debts) – according to Guideline No 5 (IPARD II

ANNUAL ACCOUNTS): “the EU amount of calculated, and not repaid, interest should remain noted

in the debtors' ledger and should be returned to the Commission in case that interest has been later

recovered from the debtor”. Considering this provision, DMS is 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

of -6.090.568,35 should stand amount of 6.091.194,16 which presents obligation for prepayment/

interim and final payments from EC.

2) Amounts presented regarding liabilities have negative value – During review of financial statements, it was noted that all amounts in the Balance Sheet related to the liabilities which include liabilities to IB/IA from EU contribution, liabilities for amounts due to the EC – recoveries and long-term liabilities have negative value instead of positive;

3) There is not separated account for recording liabilities due to interest on debts – during review Manual of procedures and Balance Sheet, it was noted that account 281-1 (liabilities to the EC-recoveries) is used for recording liabilities to the EC for recoveries from IA and there is no account predicted for recording 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.

The AA recommends preparing annual accounts with due diligence, following guidelines issued by EC, international accounting standards and generally accepted practice. In addition, DMS should include separate account for example account 281-7 for recording liabilities for interest

on debts as well as to merge accounts 291-1 and 291-3 considering good practice and consequently adopting the Manual of procedures.

AA reply 2023

Remains open

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

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.

The implementation of the recommendation will be further monitored.

XI part - Findings and recommendations identified during system audit from final report issued on 26th December 2019 – No 3011-1-06-418

1.

Body/-ies concerned: IPARD Agency
Level of priority: Intermediate

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.

According to Article 11, point 2(f) of SA, the administrative verifications shall in particular include verification of the reasonableness of the costs proposed, which shall be evaluated using a suitable evaluation system, such as reference costs, standard unit costs, a comparison of different offers or an evaluation committee. Before signing a contract IA use two evaluation systems (reference price database or evaluation committee) in order to verify reasonableness of cost.

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.

Closed

Deputy NAO approved an exception regarding Reference price database on 7th June 2023. Namely, exception was approved to modify the procedures in such way that the price for specified item is extracted from RPD and if the offered price is higher than 15% compared to the reference price, it will be sent to the evaluation committee for additional re-assessment in order to determine the reasonableness of the price. Considering approved exception, AA observation regarding rejection of items which price is higher than 30% from RPD price, is irrelevant. Consequently, this finding can be considered as closed.

Refer to System Audit Final report (26/12/2019)

4.2.1

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.

In addition, procedures for work of evaluation committee doesn't have defined precise steps and inputs for providing opinion about reasonableness of costs proposed.

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.

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.

AA reply 2023

Partially closed

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.

Regarding RPD, the AA remains of the same position that RPD and Evaluation Committee put recipients in an unequal position.

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 Directorate 	<p>Closed</p> <p>As the AA stated in the previous AAARs, the part of the recommendation that refers to the work of the evaluation committee, is followed up through the finding Deficiencies in the process for verification of reasonableness of costs, which is presented in the part VI of this follow up.</p> <p>Regarding duration of application processing, AA determined that number of days for processing applications was significantly decreased. Namely, in compliance testing conducted regarding FY 2023, the average number of days is 127 days, which is much lower than the results of compliance testing from FY 2022, when the average number of days was 231 or 240 days in FY 2021.</p> <p>Thus, the AA considers this finding as closed.</p>
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for Food Safety, Veterinary and Phytosanitary Affairs related to the recipient under application ID no 18-01-1-0125.

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.

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.

In addition, we recommend following:

- 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.

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.

AA reply 2023

Partially closed

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.

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: "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". 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 deviation of up to 10% from the prices obtained by market research .

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.
The implementation of the recommendation will be further monitored.

3.

Body/-ies concerned: Managing Authority
Level of priority: Intermediate

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

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.

Refer to System
Audit Final report
(26/12/2019)

4.6.3

Partially closed

Part of recommendation related to updating procedures in line with requirements from Sectoral Agreement is not implemented yet, since MA did not update the procedures, only a draft version is prepared.

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.

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.

AA reply 2023

Partially closed

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.

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

1.
Refer to Audit of operation Final report (04/03/2020)
4.1.3

Body/-ies concerned: IPARD Agency
Level of priority: Intermediate

ICF requirement 3. (a)(iv) Publicity rules and procedures ensuring that the legislative requirements are fulfilled.

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.

Remains open

IA did not implement recommendation of this finding. Namely, procedures are not harmonized with Guidance on the responsibilities of recipients concerning information and communication toward the public Ares (2020)2698488 from May 25th, 2020.

The implementation of the recommendation will be further monitored.

During performed on-the-spot controls we found out that the visibility rules, related to co-financing the investment by the European Union, have not been fully respected. Namely, 4 out of 8 recipients which were subject of audit of operation did not fully respect visibility requirements prescribed in contract. Not publicizing or incorrect publicizing is a result of insufficient control and lack of information to the recipients on the manner and place where such visibility material should be placed and on their quality.

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.

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.

AA conclusion January 2021:

Remains open

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.

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.

The implementation of the recommendation will be further monitored.

AA reply 2023

Remains open

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.

The implementation of the recommendation will be further monitored.

XIII Part - Findings and recommendations identified during system audit final report issued on 21st January 2019 – No. 3011-1-06-389/3

1.

Refer to System Audit Final report (21/01/2019)

4.10.1

Body/-ies concerned: IPARD Agency
Level of priority: Intermediate

According to the Manual of procedures for work in the Reference price database it is prescribed:

- 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:
 - 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.

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

Partially closed

Based on reply and submitted evidence from IA, AA notes that RPD contains 2148 verified prices with valid dates and there are 173 products with calculated reference price. During AA audit work for FY 2023, there were no cases where RPD is used. According to IA, RPD is being used for Fifth Public Call for Measure 1, however, AA could not check this statement because this public call was not subject of audits in FY 2023.

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.

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.

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.

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.

The implementation of the recommendation will be monitored.

AA Reply 2023

Partially Closed

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.

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.

DG AGRI findings

Follow up

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**

3. Recommendation for the NAO

**DG AGRI
status of recommendations**

Situation as of the letter of findings and observations Annex of Ares (2016) 5055192 dated 06/09/2016

For the same reason, since these parts of the IPARD Agency are being set up only now, DG AGRI considers that they need to be assessed by the external audit required to provide the opinion on the operating structure by point 1.7 of the Annex 3 to the SA. Therefore, the national authorities are requested to provide DG AGRI with the results of this external assessment which should in particular include extended tests on compliance of the accounting software and the compliance of the price reference database with the requirements of the FWA and the SA. As particularly regards the reference price database, among other verifications, the tests should provide a confirmation that the reference prices do not exceed the prices that a reasonably informed operator is able to find in the market. In case this condition is not satisfied, the external

Closed

Part of the finding that remained open for information security is considered **as closed** because implementation of recommendations for IS is monitored through the finding for Information system security for Measure 7.

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.

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.

Situation as of the latest DG AGRI communication to Montenegro Annex of Ares (2017)2326805 dated 05/05/2017

REMAINS OPEN

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.

FINAL ASSESSMENT

PARTIALLY IMPLEMENTED

Part of the findings issued by the external auditor are considered as closed following the assurance gained from the NAO SO that the recommendation in relation to the data entered in the reference price database has been properly addressed by the IPARD Agency.

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.

To be implemented by the deadline for submission of applications by recipients under the first call.

Cut off January 2021

Partially closed

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.

Cut off January 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.

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 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.



HLB Mont Audit.pdf

AA conclusion 2023

Partially closed

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.

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.

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.

In the course of 2023, the IA has plan to produce a report on the state of information security.

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.

**Ares (2019)
7226447 dated
22/11/2019**

**DG AGRI
status of recommendations**

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

Closed

By analysing latest Staff overview from February 2024, AA determined that in the Department for Technical and Economic Analysis currently are 9 employees (including Head of DTEA) out of 12 employees needed according to WLA 2024. Since Staffing situation for Operating structure is followed through implementation of Action plan on the DG

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.

Audit Authority follow up

Cut off 25.01.2020

Remains open

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.

According proposed procedures Head of department (DAP) has a main role and responsibility for managing the offers received by email which could significantly increase workload of this particular position, which cannot be mitigated by employment of additional 15 employees planned for 2020.

Cut off January 2021

Remains open

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.

Cut off January 2022

Partially closed

AGRI letter of closure with conditions and recommendations concerning the REBIT M7, AA considers this finding as closed.

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.

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.

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.

AA conclusion 2023

Partially closed

According to the Staff overview from February 2023, in the Department for Technical and 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.

Follow up of the Action plan on the DG AGRI letter of closure with conditions and recommendations concerning the REBIT M7 Ares(2023)2064568 dated 22/3/2023

<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.1 Staffing situation – Operating structure</p>	<p>Partially closed IA</p>
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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.

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:

- 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).

Following the latest staff and contracts overview table provided on 12/12/2019, the Montenegrin authorities do not plan to fill-in any of the vacant posts of the IPARD Agency in 2020.

In addition, there is a serious staff shortage in the Managing Authority, where the occupation rate is only 53% (only 9 out of 17 posts are filled in). No recruitments are planned in 2020.

Recommendation:

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.

New version of Act of internal organization and systematization (hereinafter: Rulebook), is adopted on Government session held on 1st March 2024, which was prepared according to the workload presented in WLA 2023. Table below presents staff situation in IA:

Rulebook	Current staff	LTEC	TEC	WLA 2023	WLA 2024	Recruitment Plan 2024
108	85	74	11	108	122	34

By analysing current staff situation in the IA, it is evident that the IA has been actively working on strengthening personnel capacities.

Head of IA was appointed on 14th September 2023.

Regarding the position of Head of IT in IA, it is important to mention that this position is fulfilled in 16th May 2023.

During FY 2023, three TEC were converted in LTEC (2 in Division for administrative affairs and 1 in Division for authorization of payments) Additionally, 4 advertisements for independent advisors in the Division for Project Evaluation and Approval had been published in the previous period, testing has been finished and decision-making is expected.

Regarding fluctuation of staff, 3 persons left IA in 2023 (2 LTEC and 1 TEC).

As regards trainings, the AA considers that IA employees attended considerable number of trainings, a total of 40. Most of trainings were related to IPARD III, PRAG procedures, EDMS-Electronic document management method, Irregularities, Information security and management of the ISO 27002 standard at the level of the IPA body, Measure 9, measure 4 and 6.

Taking into account undertaken actions regarding staffing situation in the IA, the AA considers that a notable progress in realization of Action plan for M7 has been conducted. However, taking into consideration the nature of the observation as well as bearing in mind the significant role of IA in withdrawing the IPARD funds, since the 2024 is the closing

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.

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.

The Managing Authority should present a realistic planning for recruiting staff to fill the vacant posts.

All staff should have the relevant skills and professional experience and should be adequately trained to carry out their tasks.

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

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:

- 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.

- 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.

AA reply 2023

Partially closed

IA

Rulebook

year for IPARD II and parallel implementation of two programmes, the AA considers that further improvement of personnel capacities is still a high priority for accelerating the contracting and payment process.

MA

Compared to last year, there were no changes. There were no staff fluctuation during 2023.

Rulebook	Current staff	LTEC	TEC	WLA 2023	WLA 2024	Recruitment Plan 2024
13	11	10	1	11	11	1

As regards trainings, employees of the MA attended a considerable number of trainings, 32 in total during 2023.

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.

WLA

Comparing the WLA from 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 and announcement of public invitations as well as for reception and records of requests for support.

Current staff and Recruitment plan

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).

Regarding fluctuation of staff, it is important to mention leaves of Mr Branko Šarac - Head of SOSEC 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.

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.

As regards trainings, the AA considers that IA employees attended considerable number of training, a total of 67. When it comes to new 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.

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.

MA

Rulebook

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.

WLA

WLA for 2023 as well as WLA for 2022 has shown that there is no need for further employment.

Current staff and Recruitment plan

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 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.

When it comes to fluctuation of staff in MA was no staff fluctuation during 2022.

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

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.

**Ares (2020)
2004695 dated
09/04/2020**

1.2 Permanent Appointment of the Head of the IPARD Agency and the Head of the Managing Authority.

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.

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).

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).

Closed

As the director of IA was appointed for next 5 years, this finding can be considered as closed.

DG AGRI considers that the Montenegrin authorities should proceed to official permanent/long-term appointments for these two key positions.

Recommendation:

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 2023
Partially closed**

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.

**Ares (2020)
2004695 dated
09/04/2020**

1.4 Staff Retention policy

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.

Closed with a recommendation

According to communication with IA, AA notes that employees receive various variations of top ups, which improves the retention policy and more adequately rewards and motivates employees according to performance results. Additionally, by analysing Training register, the AA considers that a considerable number of trainings have been held.

Recommendation:

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.

AA Follow up 2023

Partially closed

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.

Taking into account the nature of the observation, the IPARD Agency need to continue to monitor the staff situation and prevent the occurrence of a high turnover of staff.

**Ares (2020)
2004695 dated
09/04/2020**

1.6 Information systems security

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.

Recommendations:

Partially closed

Assessment of the Information system security by external audit company E&Y which was engaged by IA has been conducted and report issued in November 2021. Additionally, external company on behalf of DG Agri conducted audit of ISO 27002 and issued report in February 2022. Since AA should monitor and report on the implementation of recommendations from DG Agri related to ISO 27002 on quarterly basis, in order not to duplicate the findings and replies, for answer to this part, the AA considers it more appropriate to

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. The planned future IT developments should also take into account the relevant ISO 27002:2103 security requirements.

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

**AA Follow-up 2023,
Partially closed**

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.

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.

refer to the follow-up of the implementation of the Action plan for ISO 27002, which was submitted to the EC on January 28th, 2024 and which is attached as annex to this AAAR.

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 2024
<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>According to MS reply, <i>Decision of appointment of persons responsible to carry out functions and responsibilities under indirect management of EU funds within the financial perspectives of IPA II/IPA III will be adopted by the end of IQ 2024. Until the adoption of the amended Decision, in accordance with the resulting institutional, organizational and personnel changes at the level of the Government, this issue remains open.</i></p>

	<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 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</p>		
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	ensure that tasks and responsibilities are recognized by modalities proposed.		
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Follow-up on Action Plan on NAO reservations from Annual Management Declaration process for the year 2022 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 2024
<p>IPARD Agency IPARD II Information and communication - Weaknesses identified in IPARD Agency in the Ministry of Agriculture, Forestry and Water Management related to the bottlenecks on timely and adequate communication</p>	<p>There were present evident failures in regards to preparation of the referent IPA documentation and monitoring and reporting on the action plans dynamics related to the specific IPARD framework and disbursement of funds measures in 2022. Communication was jeopardized also according to the lack of staff and establishment of the precise reporting lines within and outside IA in 2022. Corrective measures have been initiated and ongoing concerning staff engagement and strengthening of the disbursement capacities. Processes and communication channels with the entities outside the organisation are not always timely and adequately implemented. Relevant information from external parties does not always reach the relevant levels of the organisation, including the senior management. Lack of long-term functional solution at the position of the Head if</p>	<p>Appointment of the Head of IPARD Agency on long term basis</p>	<p>Closed</p> <p>Head of IA was appointed on 14th September 2023.</p>
	<p>Processes and communication channels with the entities outside the organisation are not always timely and adequately implemented. Relevant information from external parties does not always reach the relevant levels of the organisation, including the senior management. Lack of long-term functional solution at the position of the Head if</p>	<p>Adoption of the new Rulebook on the Internal Organisation</p> <p>Incorporating changes within MAFW Internal Rulebook related to the communication and reporting tasks within specific division</p>	<p>Partially closed</p> <p>Rulebook on the Internal Organisation and Systematization has been adopted on the Government session held on 1st March 2024 and there are no changes related to incorporating communication and reporting tasks within specific division.</p>

	<p>Implementing Agency additionally provoked incoherent influence on internal control mechanisms and absorption of the available IPARD II funds.</p> <p>Within the implementation of activities and projects implemented through the system of indirect management of pre-accession assistance of funds, and in accordance with the responsibilities of the Management Structure, monitoring of Internal Control Framework activities is crucial, as well as respecting the deadlines for implementation as well as continuous monitoring of the obligations of all competent IPA institutions. Referent activities have been pointed out also through the findings issued during Management Structure verifications performed and concrete performance of the system level OTSCs.</p>		<p>However, during audit work, including audit of ICFR 4, AA noted that communication within and outside IA is timely and adequate.</p>
		<p>Changes of procedures in respect to communication and reporting concerning internal and external communication channels</p>	<p>Remains open</p> <p>Final draft of the Procedures for IPARD III has been prepared, however, until adoption, finding remains open.</p>

Status of AA findings from previous years as well as DG Agri findings is presented in the table below:

Findings	Closed				Partially closed				Remains open				Total number of findings
	Major	Intermediate	Minor	Total	Major	Intermediate	Minor	Total	Major	Intermediate	Minor	Total	
AA findings from previous years	5	5	0	10	1	6	1	8	1	2	0	3	21
DG Agri findings	2				0				0				2
Status Total	12				8				3				

As regards follow up of AA findings from previous years, out of 21 recommendations, 10 are implemented, 8 partially implemented and 3 remain open.

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

As regards Follow up of the Action plan on the DG AGRI letter of closure with conditions and recommendations concerning the REBIT M7 Ares(2023)2064568 dated 22/3/2023 the AA performed audit on follow up on all outstanding recommendations and out of 4 remaining corrective measures envisaged within the Action plan, according to AA assessment 2 can be considered as partially closed, while two recommendations are implemented.

As regards Reservation issued with AMD for 2020, Decision on appointment of the key IPA officials has not been prepared yet, consequently, finding remains open until the adoption of the Decision.

As regards Reservation issued with AMD for 2022, out of three mitigation measures determined, according to AAs assessment, 1 remains open, 1 can be considered as partially closed, while one is implemented.

As regards DG Agri Letter Ref. Ares (2023)5251704 from 28th July 2023, Audit Authority reply on progress of implementation of Action plan for ISO/IEC 27002 was submitted to DG Agri on 28th January 2024. Information on status of recommendations is presented in part 1.4 as well as in Annex 6 to this Report.

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 2022.

8. OTHER INFORMATION

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

There were no fraud cases or suspicion of fraud cases, thus 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, by 15th 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 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 2023 for IPARD II submitted by NAO to EC, No. 08-908/24-78/1 on 15th February of 2024, 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.

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

- Overview on the major IPA institutional and functional changes
- Overview of the key audit findings and recommendations for 2023
- Overview of the results of KRI measurement
- Overview of the results of KPI measurement
- Overview of Irregularity Reports in 2023
- Overview of risks treated
- Staff overview table February 2024
- Register of Changes
- Registers of exceptions of NAO/MS and IPARD OS bodies
- Follow up of the Acton plan on n+4 for 2020
- Detailed information on HR policy implementation within IPARD II
- Disbursement plan for M1, M3, M7
- Follow-up of the Action plan on ISO27002 standard

By verifying AMD for the purpose of issuing the AAO and AAAR for 2023, AA determined following shortcomings in the NAO Assessment Report:

- Chapter I-2 Institutional set-up and regulatory framework in the part Organizational chart it is stated that Operating Structure consists of, among others, NIPAC Office, as well as on the Page 8, “Mr Bojan Vujovic was appointed as Deputy NIPAC, what means that he takes responsibility for IPARD Programmes”. According to the Article 10 of the FWA Establishment of structures and authorities for indirect management by the IPA II beneficiary, as well as to Annex A FWA, Operating structure consists of Managing Authority and IPARD Agency, while NIPAC Office is not part of the OS. The same is presented in Annex 1 of the Sectoral Agreement for IPARD II Programme.

After performed verifications, the AA confirmed the following:

- The Annual Management declaration was submitted according to the article 59 (2) and Annex C of the Framework agreement for IPA II;
- The process of preparation of AMD was in line with NAO internal procedures. The AMD was supported by the NAO Assessment Report on functioning of MCS for the year 2023 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 system 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 2023, i.e.:

- Based on system audit (audit of procedures and test of controls), the AA has obtained a reasonable assurance on the efficient and effective functioning of the management, control and supervision system (described in Chapter 4 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).
- 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).

Considering that AA did not use statistical sampling methodology, the AA did not define expected error. Based on section 7.1.3.2 of the Guideline No 2, the total level of assurance is fixed at 95%. Confidence level obtained from compliance testing is 10% (since 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, 5.8.1 and 6.3 of this Report.

During audit work for financial year 2023, AA identified and reported 7 major findings (out of which one is already closed), 5 intermediate and 1 minor finding, **a total of 13 findings**. Four findings have financial impact, however, total error rate related to the expenditure declared in the financial year is below the materiality level. 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 do not present errors of systematic nature. One formal error was identified related to compiling the Debtors ledger, which does not call in question the correctness of amounts in the D2 Annual Declaration.

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

Total error rate related to expenditure declared in the FY 2023 is below materiality level.

For each identified deficiency, AA assessed the level of importance, quantified the financial impact (if any) and draw recommendations, which are presented in relevant sections within this Report. The corrective actions proposed aim to improve the management and control systems. With regard to irregularities identified and related financial errors, relevant provisions of the Sectoral and Framework Agreements should be followed in the efficient manner.

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 numbe r of units in the populati on	Number of sampli ng units for the rando m sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projecte d error rate	Other expend iture audited ³⁷	Amount of irregular expendit ure in the expendit ure sample (if any)
		Public (EU + national)	EU part only			Amount	%	%		
Programme for Agriculture and Rural development of	7.740.173,39€ ³⁸	1.504.178, 41€	1.128.133, 77€	126	26	7.197,98 €	0.64	0.64	/	/

³⁷ Expenditure from complementary sample and expenditure for random sample not in the reference year (amount).

³⁸ This amount refers only to 126 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**
- **Annex 6 Audit Authority reply on progress of implementation of Action plan of the DG AGRI letter of closure with conditions and recommendations concerning information systems security audit ISO27002 in IPARD agency and Management structure**

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
IEA	IPARD Euro Account
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