



MONTENEGRO
AUDIT AUTHORITY

No: 3016-06-143/1

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 2021

Podgorica, March 15th, 2022

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1. INTRODUCTION

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

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

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

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

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant / certified auditor	Part of the AAAR
			General	IPARD			
AA	Rina Mučaj Demirović	Head of Department for audit of the program of agricultural and rural development	8 years and 9 months	7 years and 9 months	P	Certified auditor/ State auditor	All members of the AA's IPARD team were involved in the preparation of this Report and the work was coordinated by the Head of the Department
	Marko Tomčić	Senior Auditor	3 years and 11 months	3 years and 11 months	P	Certified auditor/ State auditor	
	Luka Miranović	Junior Auditor	10 months	10 months	P	N/A	

1.2 Reference period (i.e. the year) and the scope of the audits (including the expenditure declared to the Commission for the year concerned)

Pursuant to Article 3(f) of the Framework Agreement between Montenegro and the European Commission on the arrangements for implementation of Union financial assistance to Montenegro under the Instrument for Pre-accession Assistance (IPA II), reference period for this AAAR is financial year and covers the period from 1st January to 31st December 2021.

The audit activities performed in the audit period for the financial year were governed by the Audit Strategy 2021-2023. Audit period began on May 6th, 2021, and ended on 7th March 2022 when the last audit engagement report was issued together with the finalization of activities on verification of the management declaration, audit of annual accounts and finalization of follow up activities.

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

In the context of system audit, in accordance with the Audit Strategy 2021-2023, 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 2021, are in line with the requirements set out in the Implementing Regulation 447/2014, Framework Agreement, Sectoral Agreement, Financing Agreement and IPARD Programme as well as other underlying regulations and to verify the efficient and effective functioning of the overall Management, control and supervision system (hereinafter MCS). System Audit of MCS was based on written procedures (test of procedures) and compliance testing¹ (test of controls) in Directorate for Management structure (NAO/SO and NFD) and Operating structure (MA and IA). Following audit areas were examined:

No	Scope of the audit		
	Assessment criteria and sub criteria (ICFR) (AC)	Auditee	Process / sub-process
1.	1(b)	MA	Supervision by management of tasks delegated to subordinates
2.	1(c)	IA, MA	Establishment of structures, reporting lines, and authorities and responsibilities
3.	1(d)	IA, MA	Staff planning, recruitment, retention, training and appraisal
4.	2(a)	IA, NAOSO	Objective setting
5.	2(b)	IA, NAOSO	Risk identification, assessment and response

¹ For the compliance testing, AA sampled 7 transactions using dual testing purpose plus 3 advance payments based on professional judgement as explained in section 4.2 (2) of this Report

6.	3(a)	NFD, IA	Selection and development of control activities
7.	3(c)	IA	Policies and procedures related to control activities
8.	4(a)	MA	Information to support functioning of internal controls
9.	4(b)	MA	Internal communication
10.	4(c)	MA	External communication

In the context of audit of operational transactions, in accordance with the Audit Strategy 2021-2023, AA performed test of transactions with objective to confirm the legality and regularity of declared expenditures in financial year 2021. The AA conducted three audits of operation, one related to the first and second quarter (D1 – Q1 and Q2), second related third quarter (D1 – Q3) and third audit of operation related to expenditure declared in the last quarter of FY 2021 (D1 – Q4).

The total gross amount of public IPARD II expenditure (divided into the EU and the national part) declared to the European Commission for the reference period FY 2021 (in accordance with the Annual Declaration (Form D2)) is presented in the table below:

Quarter in 2021	Number of executed final payments in quarter	Number of executed advance payments in quarter	Amount of executed final payments (EU/IPA part) €	Amount of executed advance payments (EU/IPA part) €
Q1	14	0	344.453,89	0,00
Q2	16	0	578.686,89	0,00
Q3	4	3	588.258,17	341.312,74
Q4	14	9	1.065.667,44	607.193,34
Total	48	12	2.577.066,39	948.506,08

Bearing in mind that procedures for IPARD programme have been revised and advance as well as interim payments to the recipients have been introduced as an option, as presented in the table above, in the D1 for III and IV quarter of FY 2021 part of payments executed and declared to the EC represent advance payments (12 payments in total), while other part of payments represent final payments under the contracts financed from IPARD programme (48 payments in total).

According to Guideline No 2 IPARD II Audit strategy and considering the assessment made of the Internal Control System of the IPARD Agency ("Works"), the AA determined the minimum sample size as 20% of the population size, i.e. $48 \times 20\% \approx 10$ operational transactions to be tested. The total population for the audit of operation consists of all final payments to recipients, without advances. Taking into consideration the population size, i.e. number of executed final payments in FY 2021, the AA applied non-statistical sampling in order to determine the sample size for operational transactions.

In the context of audit of accounts, in accordance with the Audit Strategy 2021-2023, the AA performed comprehensive reconciliation and review of accounting records and financial statements with objective to confirm the completeness, accuracy and veracity of the annual accounts. According to Guidelines No.2 - IPARD II Audit Strategy and No.3 - IPARD II Annual audit activity report the AA also performed substantive testing of non-operational transactions (irregularities/debts, advances and transactions in the IPARD Euro account).

In the context of follow up, in accordance with the Audit Strategy 2021-2023, the AA performed follow up on recommendations² issued in previous AAARs, as well as on the remaining recommendations from DG AGRI Reports.

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

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

The IPARD II Programme for Agriculture and Rural Development for Montenegro for 2014-2020 was adopted by Commission Implementing Decision C (2015)5074 from 20th July 2015, modified on 7th May, 2019 as well as on from 1st April, 2021 and the total indicative costs for the implementation, including EU, national and private contributions, amount to 86.8 € million for the period 2014-2020, while the indicative contribution of the EU is 39€ million.

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

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

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

- Farm diversification and business development.

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

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

²Presented in detail in Section 7.1 of this Report

- The National IPA Coordinator (hereinafter NIPAC) – **Ms Zorka Kordić** – appointed on 7th December 2020 as State Chief Negotiator within the Government of Montenegro (European Integration Office). The NIPAC is responsible for strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA II assistance;
- The National Authorizing Officer – **Mr Janko Odović** - State Secretary within Ministry of Finance and social welfare appointed on 25th February 2021 as NAO. The NAO has overall responsibility for the financial management of IPA II assistance in Montenegro and for ensuring the legality and regularity of expenditure. The NAO is responsible for the management of IPA II accounts and financial operations and the effective functioning of the internal control systems for the implementation of IPA II assistance.
- The Management Structure (hereinafter DMS) – Directorate for Management Structure within Ministry of Finance and Social Welfare, managed by **Ms Ivana Maksimović** as Acting Director General and Deputy of NAO, appointed on November 16th 2017 as acting director and on April 26th 2018 as General Director. On October 1st 2021, the Government of Montenegro appointed Ms Maksimovic to perform the function of Acting Director General. The DMS consists of two separate divisions, which are formally established on October 25th 2017:
 - The National Fund Division – **Ms Žana Jovanović** - Head of NFD from April 1st 2019. The NFD is in charge of tasks of financial management of IPA II assistance, under the responsibility of the NAO. The NFD is responsible for holding and organizing the central IPA bank accounts, requesting funds and receiving all payments from the Union budget, authorizing the transfer of such payments to the operating structures or to the recipients, returning funds to the Union budget following recovery orders issued by the Commission, supporting NAO in preparing financial reporting to the Commission and operating computer based accrual accounting system that provides accurate, complete and reliable information in a timely manner.
 - The NAO support office – **Mr Velibor Damjanović** – Head of NAOSO from April 1st 2019. The NAO support office is accountable to the NAO and assists the NAO in fulfilling defined tasks
- The Operating structure consists of:
 - Managing Authority (hereinafter MA) – **Ms Andrijana Rakocevic**, Director General of the Directorate for Rural Development (MA), appointed on 16th September 2021 as acting and on 2nd February 2022 formally by the Government of Montenegro. The MA is responsible for preparation, monitoring of implementation of IPA II rural development programmes and evaluation.
 - IPARD Agency (hereinafter IA) – **Mr Vladislav Bojovic**, Acting Director General of the Directorate for payments (IA), appointed by the Government of Montenegro on 16th September 2021. 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.

Information system security was not covered by the AA audits during FY2021, however AA shortly presents current state of play regarding information system security and results of other audits.

Regarding the IT security policy, the Government of Montenegro on the session held on March 19th 2020 adopted the Proposal of Action Plan ISO 27002 and engaged the Ministry of Public Administration to establish Steering Committee and Operational team in order to ensure monitoring of implementation of IT Action Plan ISO 27002 for all institutions involved in implementation of IPA. The implementation of the Action Plan is foreseen for the period 2020 - 2022 with activities requiring the involvement of an independent consulting institution with specific experience in the required field. Due to COVID-19 outbreak, some activities are postponed. New Steering Committee in charge for the monitoring of the implementation has been established. First meeting was held on February 2022.

The AA in AAAR for FY 2018 recommended the IA that follow up of the remaining findings from the final report for IT issued by external auditor 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 23rd, 2021. 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.

According to AA's opinion, when it comes to the ICS system related to IPARD II as well as relevant procedures, system is designed in a way that recipient submits application and all supporting documents in paper form via official mail (there is no MIS/IMS or similar system which could be used for uploading application and supporting documents by recipients). Also, all controls and checks performed on application itself are paper-based, controllers print and fill the checklist without any IT solutions (there is no kind of software which could optionally perform completeness check or eligibility check of documents submitted via some electronic system like MIS). All official communication with recipients and within management structure is also paper-based (they are using emails, but rarely). Consequently, the AA considers that IT system currently doesn't present a significant part of the control functions.

However, having in mind preparation for IPA III and the overall goal for increasing efficiency, the AA encourages the IA to develop IT solutions which could increase efficiency of the whole process (development of MIS/IMS or similar system for electronic upload of applications and providing information and communication with other stakeholders, development of software for automatic control of completeness of applications, etc.).

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

As defined in Clause 5(3)(a)(b) of the Annex A of the FWA, in order to prepare the AAAR and to issue the Annual Audit opinion (hereinafter AAO), the Audit Authority has processed, summarised and assessed the

findings and recommendations included in the reports on audits performed in accordance with Audit strategy and has carried out a follow-up to assess the time proportional to implementation of action plans prepared on the basis of audit recommendations.

The AAAR is prepared following the Annex D to the FWA and sets out, inter alia, any deficiencies found in the management, control and supervision systems and any corrective measures taken or planned by the NAO, management structure and/or the operating structures concerned, and details of any substantial changes in the management and control system. Steps taken for preparation of the report are based on requirements defined in section 5 of Guideline 2 by defining audit scope and objectives, establishing audit universe, identifying and assessing risks of material misstatements as well as defining audit approach and preparing plan for every engagement related to the FY 2021.

In accordance with Art.59 (2) of the Framework Agreement between the Commission and Government of Montenegro, for the Programme IPARD II the NAO has submitted the Annual Management Declaration and Annual financial report for FY 2021³ to the Commission with a copy to the NIPAC and AA.

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

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 2021, following the Guideline 8 and form defined by Annex E of the FWA.

The AA didn't rely on the work of Internal Audit, third party subcontracted auditors, specialists and experts, third party certificates from bodies accredited for the chosen international standard, etc.

2. SUBSTANTIAL CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

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

The NAO has issued the AMD for FY 2021 without reservation. Since the AMD for FY 2020 was issued with a reservation regarding significant change of the IPA institutional and organisational framework in the 2020 caused by the formation of the new Government of Montenegro, as regards the IPARD II Programme and respective structures and bodies constituting MCS, AA can confirm that, there were no significant organisational changes in the sense of changing, replacing, or merging institutions constituting MCS, neither any of the functions originally trusted were delegated or externalised during FY 2021. However, during FY 2021 there were certain key personnel changes, which are presented below. Having in mind that new Decree

³ On 15th February 2022 (Ref. 17-908/22-4092/1)

on the organization and manner of work of the state administration was adopted, each ministry prepared and adopted the rulebook on internal organization and systematisation during the first half of 2021.

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

<i>IPARD body and the specific function concerned</i>	<i>Brief description of the change</i>	<i>Assessment of the change by NAO (substantial or non—substantial and the date)</i>	<i>Impact on the MCS: low – L, medium – M or high – H</i>	<i>Date of notification to</i>		<i>Date approval of the EC by</i>	<i>Date of entry into force</i>
				<i>AA</i>	<i>EC</i>		
<i>IPARD Agency and Managing Authority</i>	<p><i>Adoption of a new Rulebook of internal organisation and systematisation of the Ministry of Agriculture, Forestry and Water Management.</i></p> <p><i>New Department established within Directorate for payments (IA)/Sector for structural support – Department of technical and economic analyses</i></p> <p><i>New Sector established within Directorate for payments (IA)– Sector for reporting, risk and</i></p>	<i>Substantial 26/03/2021</i>	<i>M</i>	<i>16/04/2021⁴</i>	<i>16/04/2021⁵</i>	<i>N/A</i>	<i>1/04/2021</i>

⁴ Quarterly reporting to DG AGRI - M7 and n+4 rule April 2021

⁵ Ibidem

	<p><i>irregularity management</i></p> <p><i>As regards Directorate for Rural Development (MA), the former Department for coordination and public relations (PR) for the rural development is incorporated within the newly formed Department for monitoring and evaluation of IPARD, Coordination and Public Relations (PR) for the Rural Development measures.</i></p>						
<i>DMS</i>	<i>Adoption of the Rulebook of the Ministry of Finance and social welfare</i>	<i>Substantial</i>	<i>M</i>	<i>No information</i>	<i>No information</i>	<i>N/A</i>	<i>30/07/2021</i>
<i>Sectoral Agreement</i>	<p><i>Parliament of Montenegro adopted amendments to the Law on Ratification of the Sectoral Agreement for IPARD II programme</i></p> <ul style="list-style-type: none"> <i>- Introduction of the possibility of advance</i> 	<i>Substantial n/a</i>	<i>H</i>	<i>17/11/2020</i>	<i>N/A</i>	<i>17/11//2020</i>	<i>14/05/2021</i>

	<i>payment up to 50% of the advance</i>						
<i>Financing Agreement</i>	<i>Adoption of amendment to the Financing Agreement 2014-2020 for IPARD II</i>	<i>Substantial n/a</i>	<i>M</i>	<i>7/06/2021</i>	<i>7/06/2021</i>	<i>11/11/2020</i>	<i>7/06/2021</i>
<i>IPARD II Programme</i>	<i>Adoption of v. 1.3 of the IPARD II Programme</i>	<i>Substantial 20/11/2020⁶</i>	<i>M</i>	<i>27/11/2020</i>	<i>27/11/2020</i>	<i>28/01/2021</i>	<i>01/04/2021</i>
<i>Implementing Agreement</i>	<i>Signing of the Implementing agreement between NAO, NIPAC, Head of the IA and Head of the MA in the policy area Agriculture and Rural Development</i>	<i>Substantial n/a</i>	<i>M</i>	<i>15/02/2022</i>	<i>15/02/2022⁷</i>	<i>n/a</i>	<i>27/01/2022</i>
<i>Operational Agreement</i>	<i>Signing of Operational Agreement on the implementation of the Measure 9 Technical Assistance under IPARD II Programme (2014-2020)</i>	<i>Substantial n/a</i>	<i>M</i>	<i>15/02/2022</i>	<i>15/02/2022⁸</i>	<i>n/a</i>	<i>28/01/2022</i>
<i>IA procedures of work</i>	<i>Adoption of Manual of Procedures v. 2.2 for IPARD II Programme - introducing the model of</i>	<i>Substantial 12/04/2021</i>	<i>M</i>	<i>19/04/2021</i>	<i>15/04/2021</i>	<i>n/a</i>	<i>12/04/2021</i>

⁶ Monitoring Committee for the IPARD II Programme for Montenegro considered and approved the proposal to amend the IPARD II Programme.

⁷ Within AMD 2021

⁸ Within AMD 2021

	pre-financing up to 50% of the eligible amount of investment in the form of advance payment for all future public calls, starting from the first public call for the Measure 7						
<i>IA procedures of work</i>	<i>Adoption of Manual of Procedures v. 2.3 for IPARD II Programme-introducing of interim payments</i>	<i>Substantial 14/09/2021</i>	<i>M</i>	<i>23/09/2021</i>	<i>30/09/2021</i>	<i>N/A</i>	<i>15/09/2021</i>

The Following table presents key staff changes during the FY 2021:

<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 (P) or temporary (T)</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>
		<i>From</i>	<i>Until</i>	<i>AA</i>	<i>EC</i>		<i>From</i>	<i>Until</i>			<i>AA</i>	<i>EC</i>	
<i>NIPAC</i>	<i>Mr Aleksandar Drljević - Until return of the Ms Ivana Glišević Đurović who is</i>	<i>30/04/2020</i>	<i>7/12/2020</i>	<i>14/05/2020</i>	<i>14/05/2020</i>	<i>Ms Zorka Kordić</i>	<i>07/12/2020</i>	<i>Until return of the Ms Ivana Glišević Đurović who was on</i>	<i>T</i>	<i>N/A</i>	<i>26/01/2021</i>	<i>26/01/2021</i>	<i>L</i>

	<i>on maternity leave</i>							<i>maternity leave⁹</i>					
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NAO

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

DMS

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointment of the new person: permanent (P) or temporary (T)	Date of the approval by NAO	Date of notification to		Impact of the change: low - L, medium – M or high - H
		From	Until	AA	EC		From	Until			AA	EC	
Head of the DMS/De	Ms Ivana Maksimovic	16/11/2017	02/09/2021	No information	No information	Ms Ivana Maksimovic	1/10/2021	6 months as Acting Director General	T ¹⁰		--	--	L

⁹ On 27th August 2021 Ms Ivana Glisevic Djurovic resigned from the position of NIPAC and Ms Zorka Kordic continued to perform the function of NIPAC according to previous Government Decision

¹⁰ On 9th February 2022 Ministry of Finance and social welfare published public announcement for fulfilling the position of the Head of DMS

puty NAO													
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MA

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointment of the new person: permanent (P) or temporary (T)	Date of the approval by NAO	Date of notification to		Impact of the change: low - L, medium - M or high - H
		From	Until	AA	EC		From	Until			AA	EC	
		Head of the MA	Mr Darko Konjević	27/02/2020	11/02/2021		15/2/2021	15/2/2021			Ms Andrijana Rakocevic ¹¹	16/09/2021	
							21 as Acting and from 2/02/2022 formally appointed as Director General				15/02/2022	15/02/2022 ¹²	

IA

Position affected	Previous person	Position held by the	Date of notification to	New person	Position held by the new person	Appointment of the new	Date of the approval	Date of notification to	Impact of the change: low - L,
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¹¹ After resignation of the Mr Konjevic, according to the Substitution plan, Head of the MA was substituted by the Head of Department for Monitoring, Evaluation and Reporting, Mr Enis Gjakaj. After approval of the new Rulebook and accordingly preparing new Decisions, Head of MA was substituted by the Head of the Department for Monitoring and Evaluation, Mr Zoran Iric

¹² Within AMD 2021

		<i>previous person</i>							<i>person: permanent (P) or temporary (T)</i>	<i>al by NAO</i>			<i>medium – M or high - H</i>		
		<i>From</i>	<i>Until</i>								<i>From</i>	<i>Until</i>			
				<i>AA</i>	<i>EC</i>									<i>AA</i>	<i>EC</i>
<i>Head of the IA</i>	<i>Ms Danka Perović</i>	<i>28/11/2019</i>	<i>16/09/2021</i>	<i>01/10/2021</i>	<i>01/10/2021</i>	<i>Mr Vladislav Bojovic</i>	<i>16/09/2021</i>	<i>6 months as Acting Director General</i>	<i>T</i>	<i>N/A</i>	<i>01/10/2021</i>	<i>01/10/2021</i>	<i>H</i>		

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

NOTE: According to FWA Article 11 (1), 12(5), as well as Annex A, clause 2 (4(i)) the IPA II beneficiary shall immediately inform the Commission of any substantial changes concerning the structures and authorities. It is responsibility of the NAO to notify the Commission of any substantial change concerning the management and control systems for examination and approval in advance of their implementation.

Besides FWA, according to the SA, Article 7 (3) the NAO shall assess any proposed changes in the implementing or paying arrangements of the operating structure and management structure and shall inform the Commission, with copy to the Audit Authority, of any substantial change, including NAO's assessment, appropriate explanations, justifications and supporting documents for examination and approval in advance of their implementation. According to the Article 24 (8) a substantial change shall be considered to be any change introduced in the respective national systems after the entrustment of budget implementation tasks, which may affect significantly the implementing structures and systems initially presented as part of the request.

As presented in the tables above regarding the changes in the legislation and key staff, the EC as well as AA were not informed immediately about some of the changes occurred during FY 2021, such as Adoption of the new Rulebook of the Ministry of finance and social welfare as well as on the dismissal of the Head of DMS. Thus, the AA highlights the necessity of the NAO to inform the EC, as well as the AA about all significant changes immediately in order to follow the implementation of the IPARD II programme and to gain reasonable assurance that the agreed conditions in the REBIT are still valid and respected.

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

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

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

In Letter Ares (2022)862832 from February 7th 2022, the DG Agri requested from the AA to assess procedural modifications as well as approved exceptions to the procedures presented in the reply of the NAO dated 13th December 2021. In the submitted reply, the NAO mentioned procedural modifications endorsed during FY 2020 (v.2.1 – Introduction of pre-financing 10% of the IPARD support) and FY 2021 (v.2.2. and 2.3.) as well as some of the exceptions approved during these two financial years. Since all procedural modifications and related exceptions which were approved during FY 2020 have been presented in the AAAR 2020, hereinafter, the AA decided to assess and explain procedural modifications which were endorsed during FY 2021, as well as all requested and approved exceptions during FY 2021.

During FY 2021, the NAO approved two innovated versions of the IA procedures of work:

1. Version 2.2

In order to enhance absorption of funds within deadlines and to meet the needs of recipients in the implementation of investments, the model of advance payment up to 50% of the eligible amount of investment is introduced within version 2.2 of the Mop, for all future public calls, starting from the first public call for the Measure 7. Version 2.2. came into force on April 12th 2021. Change of the procedure was supported by amendments to the Sectoral Agreement for IPARD II programme, while the Parliament of Montenegro adopted amendments to the Law on Ratification of the Sectoral Agreement for IPARD II programme in May 2021, as well as Decree on amendments to the Decree on implementation and using of EU Instrument for Pre-Accession Assistance for IPARD II programme (No. 91/21 from August 27th 2021), which introduced the possibility of advance payment for applicants who have signed the contract.

2. Version 2.3

Version 2.3 of the IA MoP came into force on September 15th 2021 and includes a new method of payments -interim payments. In order to enhance the use of available funds from the IPARD programme in the future period, within the envisaged deadlines, the NAO approved the possibility of interim payments. In addition, new amendments of Decree on the implementation and using of EU Instrument for Pre-Accession Assistance for IPARD II programme in regard to introducing the interim payment was adopted (No. 118/21 from November 5th 2021).

Besides procedural modifications, during financial year 2021 six exceptions were approved by the NAO, five of them were initiated by the staff of IPARD Agency and one by staff of DMS and IA together.

Exceptions initiated by the IA:

1. Modifying AMD issuance procedures with relevant annexes ¹³

Exception is requested in accordance with instructions given by the DMS and in order to align with the DMS procedures for issuing AMD. The DMS prepared modifications of the relevant AMD chapter in a manner to guarantee more precise information which will serve as a ground for giving assurance. Based on the changes and requirement of the DMS, the IA has updated the procedures (version 2.2) regarding AMD process and incorporated two new annexes: Annex 1 Model Management declaration by the Head of IA and Annex 2 AMD cl Head of IA.

2. Modifying procedures in regard to amendment of contracts to introduce pre - financing up to 50%¹⁴.

Since the possibility of advance payments up to 50% is enabled for all public calls starting from the first call for M7, but not for previous announced public calls and due to the increased risk of losing funds for previously announced public calls, IPARD Agency submitted a request for exception of the procedures to

¹³ Deputy NAO approval from January 20th 2021

¹⁴ NAO approval from June 22nd 2021

NAO in regard to modifying procedures for advance payments up to 50% according to changes occurred within amendment of the Sectoral Agreement and to allow retroactive use of the payment of an advance of up to 50% for all previously signed contracts from all published public calls for Measures 1 and 3, for which the beneficiary has not yet sent a request for payment, i.e. the investment is still in the implementation phase. Several procedures and annexes have been amended in order to enable the recipients who have signed contracts under versions other than version 2.2. to use the advance possibility.

3. Modifying procedures in regard to introducing interim payments¹⁵

This exception mainly relates to providing recipients with the opportunity to receive interim payments. The model of interim payments is incorporated within the new version of Manual of procedures 2.3., which entered into force in September 2021 and is available only for all future public calls. In order to enhance the absorption of available amounts of support per measure and reduce the risk of de-commitment, the IA submitted to NAO an exception in order to allow retroactive use of the possibility of interim payments for all previously signed contracts, after finalization of part of investment. Consequently, the IA aligned all chapters, annexes and CLs of previous versions of the Mop to allow retroactive use of the possibility of interim payment.

Besides interim payments, part of the exception is related to changing the Manual of DPAP (v.1.1., 1.2., 2.0., 2.1., and 2.2.) in part related to the right of IA to publish information on recipients on the IA's website, according to recommendation of the AA, as well as changing the Eligibility CI for M.7.1. (v.2.2., and 2.3.) in order to align some of the questions with the criteria of IPARD program 1.3. version.

Further, exception is also related to the introduction of a new Annex within the Manual for DAP (v.2.0., and 2.1.) DP-DAP-00-15 Request for opinion in order to require additional opinion in cases that recipient buys mechanization/equipment of different brand than contracted. This Annex is involved in MoP of DAP version 2.2.

Additionally, part of the exception is related to some technical errors identified within the Manual of DTEA version 2.3, as well as alignment of the Annex DP-DTEA-00-05 Invitation for offers-quotations for works with the manual of the DAP.

4. Modifying procedures in regard to duration of validity of supporting documents (v.1.1., 1.2., 2.0 and 2.1)¹⁶

In order to accelerate the payment process, the IA requested an exception related to duration of validity of documents proofing that recipient is not criminal offended for fraud, as well as that recipient is not in a criminal procedure for frauds. According to earlier versions of Mop, these documents shall not be older than 1 month. The IA requested to change them and instead of one, mentioned documents must not be older than 3 months. This change is already included from version 2.2 of the MoP for DAP.

¹⁵ Deputy NAO approval from 6th October 2021

¹⁶ Deputy NAO approval from 22nd November 2021

5. Modifying procedures in regard to accounting software, entering and book -keeping data in the IPARD software¹⁷

Considering that option of advance and interim payment has been introduced, in order to simplify and improve the procedures in regard to evidence and book-keeping of Authorisation letters, the IA requested a change regarding responsible persons for entering data in accounting software. Procedures prescribe that DAP is responsible for entering authorisation letters in the software, while DAB is in charge for checking the data and performing the procedure of book-keeping. With this exception, the IA requested to exclude the obligation of DAP for entering the authorisation letters in the IPARD software and to add it as a responsibility of the DAB, i.e. DAB to be responsible for both, entering and recording data related to Authorisation letters in the accounting software.

Exception requested by DMS and IA:

1. Introducing of new Annex DEP -00 -07 Cash flow forecast¹⁸

According to procedures, the IA shall on a monthly basis, prepare Annex DP-DEP-00-06 Allocation of IPARD Funds by measures which includes data for the 2 years period, for internal purposes. Additionally, the IA prepares on a monthly basis Annex DP-DEP-00-07 Cash flow forecast which includes data for the 6 months period for submission to the NAO. Based on gained experience, DMS and IA concluded that reporting on monthly basis is too often and data provided may not be precise. Besides that, DMS and IA introduced a new Annex Cash flow forecast, instead of two above mentioned annexes. Consequently, both institutions agreed to prepare CFFs on a bi-monthly basis, which shall contain two tables, one excels sheet shall contain cash flow forecast for 2 years, and second one for 6 months period.

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

3. CHANGES TO THE AUDIT STRATEGY

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

The AA confirms that the audit work was carried out as planned in the audit strategy. However, besides ICFRs presented in the point 5.3 of the Audit Strategy 2021-2023, which were obtained by risk assessment, in system audit for FY 2021, the AA also included the ICFR 3(c) Policies and procedures related to control activities for IA. The reason for the subsequent inclusion of criterion 3(c) in the scope of system audit is that, in meantime, Montenegro received conditional entrustment for Measure 7 and on 12th April 2021 a new version of the Manual of procedures of IA v.2.2 for measures 1, 3 and 7 of the

¹⁷ Deputy NAO approval from 24th November 2021

¹⁸ Deputy NAO approval on 26th October 2021

IPARD II program (v.1.3) came into force. Besides that, on 23rd June 2021, the first public call for M7, sub-measure 7.1 - Support of investments for development of rural tourism) was announced. Since a new measure was introduced, the AA decided to conduct a test of design related to new procedures. According to communication with DG Agri and AA's assessment, the AA considered that there was no need to update the strategy for the action taken.

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

All changes are presented in point 3.1.

4. SYSTEMS AUDITS

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

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

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

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant / certified auditor	Type of audit work carried out by the body/person
			General	IPARD			
AA	Rina Mučaj Demirović	Head of Department for audit of the program of agricultural and rural development	8 years and 9 months	7 years and 9 months	P	Certified auditor / State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report ICFR 1(b) ICFR 1(c) ICFR 1(D) ICFR 3(a)(i) ICFR 3(a)(ii) ICFR 3(a)(iii)

							ICFR 3(a)(v) ICFR 3(a)(vi) ICFR 3(a)(xi) ICFR 3(a)(xiii)
	Marko Tomčić	Senior Auditor	3 years and 11 months	3 years and 11 months	P	Certified auditor/ State auditor	ICFR 2(a) ICFR 2(b) ICFR 3(a)(i) ICFR 3(a)(iii) ICFR 3(a)(v) ICFR 3(a)(vi) ICFR 3(a)(x) ICFR 3(a)(xiii) ICFR 4(a) ICFR 4(b) ICFR 4(c)
	Luka Miranović	Junior Auditor	10 months	10 months	P	N/A	ICFR 3(a)(i) ICFR 3(a)(iv) ICFR 3(a)(v) ICFR 3(a)(vi) ICFR 3(a)(vii) ICFR 3(a)(ix) ICFR 3(a)(xii) ICFR 3(a)(xiii) ICFR 3(c)

4.2 Summary table of the audits carried out

Audit period	1. Programme (CCI and title)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)
01.01.2021.- 31.12.2021 1. i.e. FY 2021	Programme for Agriculture and Rural development of Montenegro - IPARD II No CCI: 2014ME06I4NP001	Audit Authority of Montenegro	Directorate for Management Structure (NFD and NAOSO), Operating Structure (MA and IA)	May – December 2021	System Audit encompassed DMS (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) • Establishment of structures, reporting lines, and authorities and responsibilities (ICFR 1c) • Staff planning, recruitment, retention, training and appraisal (ICFR 1d) • Objective setting (ICFR 2A) • Risk identification, assessment and response (ICFR 2B) • Selection and development of control activities (ICFR 3a) • 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)	1. Unequal approach regarding VAT exemption between recipients of IPARD II funds; 2. Lack of efficiency in gathering documentation; 3. Non-compliance between the IPARD II Programme and the Decree for implementation of measures regarding specific eligibility criteria under M3; 4. Shortcomings in defining objectives of the IPARD Agency; 5. Insufficient publicity of IPARD II Programme; 6. Non-compliance with requirements for publication of List of operations and recipients.	/	/	1.Open 2. Open 3.Closed 4.Open 5.Open 6.Open

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

1) Test of procedures

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

2) Compliance testing

During FY 2021, under IPARD II Programme 2014-2020, IPARD Agency has continued with the process of implementation (signing of contracts and executing payments to recipients) of public calls published in FY 2018, 2019 and 2020. From the beginning of IPARD II Programme, the IPARD Agency has published 8 public calls of the IPARD II Programme 2014-2020:

- three Calls for applications for measure 1,
- four Calls for submitting applications for allocation of funds for Measure 3¹⁹,
- one Call for application for Measure 7(sub-measure 7.1).

When it comes to the compliance testing, AA implements approach of dual-testing purpose for payments covering Q1, Q2 and Q3. AA firstly selected the substantive testing sample by a non-biased method (details presented in point 5.2) which covered payments declared in three quarters (D1 – Q1, D2 – Q2 and D1 – Q3) including 7 transactions in total. All 7 transactions were suitable and were subject of compliance testing. In line with the requirements from Guideline no.2 (at least 10 transactions for compliance testing), the AA decided to include advance payments for compliance testing as there are newly introduced procedures related to advance payments. Considering that there were only three advance payments for all three quarters (Q1, Q2 and Q3), AA decided to selected all advance payments for compliance testing purpose. Compliance testing includes all payments covered by substantive testing for Q1, Q2 and Q3 (7 in total) as well as all advance payments executed in Q1, Q2 and Q3 (3 in total) which resulted 10 transactions in total. Out of 10 transactions, 5 refers to Measure 1(final payments) and 5 to Measure 3 (2 final payments and 3 advance payments) and thus AA has covered a variety of transactions, measures and procedures, to allow adequate assessment of the system.

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

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

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

¹⁹ Fourth call for Measure 3 is ongoing, deadline for sending applications is extended to 31st March, 2022

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

The outcome of the compliance testing is summarized in the Final report of audit of operation related to the Q3 of FY 2021.

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 2021-2023 the Audit Authority performed a detailed risk assessment to determine the bodies and priority processes in conducting system audit.

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

- International Standards on Auditing (and in particular ISA 300, 315, 320, 330, 500),
- EC Guidance document on a common methodology for the assessment of management and control systems in Member States and
- DG AGRI Guideline 2 IPARD II audit strategy.

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

During risk assessment, risks were identified and considered at the authorities and process/ ICFR level. Specific inherent and control risk factors were assessed for each body and process/ICFR. Each risk factor, including inherent and control risks, was assessed as low, medium or high, considering both the significance and likelihood of the risk, and was evaluated in 5-points scale: the highest risk gets highest points and vice versa. In order to distinguish between the factors with varying importance, the weight was given to the specific risk factors. After assessment, all bodies and processes were ranked according to the total score. According to the results of performed risk assessment we identified processes and ICFRs within DMS (NAO/SO and NF), Managing authority and IPARD Agency which were covered by the system audit.

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

When it comes to the compliance testing of non-operational transactions, transactions related to the irregularities/debts and advances were covered separately through compliance testing (ICFR were covered through system audit) as well as through substantive testing and for transactions related to the

IPARD Euro account dual testing purpose was applied. Sampling details are provided in section 5.2.2 of this report.

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

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

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

- The AA verified that Manuals of procedures are in line with Framework, Sectoral and Financing Agreement as well as other appropriate national and EU regulation, and whether they are applied in practice;
- The AA verified whether the supervision by management of tasks delegated to subordinates is conducted continuously;
- The AA verified the procedure of identification, assessment and recording of changes affecting the system of internal control;
- The AA verified adequacy of the irregularity process and implementation in practice;
- The AA verified whether appropriate publicity measures are taken and whether all information concerning the activities related to IPARD Programme 2014-2020 is published on the official website of the DP/ MAFWM and in the media;
- The AA verified whether the internal control system for calculation of the economic viability of recipient (procedure for assessment of a business plan) and for checking of reasonableness of costs (including reference price database) is set up appropriately;
- The AA evaluated accounting system within Department for Accounting and Budget (main accounting functions including process of recording of debts to be recovered and preparation of periodic summaries of expenditure as well as preparation of quarterly and annual declarations to the Commission);
- The AA verified the implementation of the following procedures: procurement, payment, budgetary, reconciliation and archiving;
- The AA verified the procedure of identification, assessment and recording of exceptions;
- The AA verified whether adequate segregation of duties is ensured;
- The AA verified whether continuity of operations is ensured, as well as whether adequate security procedures are implemented;
- The AA verified whether the reporting lines are established in a way that provides a good and efficient flow of information including procedures for collection of data for monitoring and reporting;
- The AA verified appropriate assurance role from NAO/SO including timely preparation and issuance of the Annual management declaration.

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

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

List of samples reviewed for compliance testing of operational transactions												
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	321-1418/18-13	18-01-1-0353	1	Y	Y	Y	Y	N/A	N/A	5,415.06		Y
Payment N° 2	321-2098/18-39	18-01-3-0004	3	Y	Y	Y	Y	N/A	N/A	149,686.75	631.76**	Y
Payment N° 3	321-1354/18-28	18-01-1-0271	1	Y	Y	Y	Y	N/A	N/A	7,335.54		Y
Payment N° 4	09-908/20-10327/13	20-02-1-0048	1	Y	Y	Y	Y	N/A	N/A	8,993.73		Y
Payment N° 5	321-2351/18-28	18-01-3-0045	3	Y	Y	Y	Y	N/A	N/A	18,712.50		Y
Payment N° 6	321-1387/18-20	18-01-1-0293	1	Y	Y	Y	Y	N/A	N/A	6,115.28		Y
Payment N° 7	09-908/20-8213/24	20-02-1-0021	1	Y	Y	Y	Y	N/A	N/A	241,411.70		Y
Payment N° 8	321-4461/19-43	19-02-3-0044*	3	Y	N/A	Y	Y	Y	N/A	136,782.67		N/A
Payment N° 9	321-4464/19-42	19-02-3-0047*	3	Y	N/A	Y	Y	Y	N/A	80,188.00		N/A
Payment N° 10	321-4467/19-38	19-02-3-0049*	3	Y	N/A	Y	Y	Y	N/A	124,342.07		N/A

*These transactions are related to advance payments which are for the first time executed in FY 2021 and thus AA decided to include these transactions in compliance testing.
** Error detected as result of dual testing and audit of operation, not result of the system audit

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

Number of transactions tested are presented in the table below:

Procedure	No of transactions tested	Findings (if any)
Administrative controls	10	Section 5.8.1
On-the-spot controls	7	Section 5.8.1
Payment procedures	10	There were no findings
Accounting procedures	10	There were no findings
Advances/securities	3	There were no findings
Procedures for debts	2	There were no findings

The AA confirmed that ICS within IPARD II Programme “Works”, but improvements are necessary related to the issues presented in the recommendation below as well as presented in the section 5.8.1 of this report. For part of ICS, control activities “Validation and authorisation – administrative control as well as on the spot control”, AA assessed as “Works partially” as presented below. AA considers that there is no error of systematic nature. Deficiencies are mainly related to the process of assessing of reasonableness of costs and significant delay in work of evaluation committee which impact on overall effectiveness of implementation of IPARD Programme. In addition, there is no adequate audit trail for work of evaluation committee. Employees from department for on the spot control attended a various number of trainings, but further capacity strengthening is necessary. Assessment is based on findings related to the FY 2021 as well as on professional judgement and audit results from previous financial year. AA emphasize that number of payments declared to the EC during FY 2021 (only 48 final payments) shows a decrease in

comparison with the FY 2020 (161 payments) and that, despite a larger number of published public calls. Thus, the AA encourage operating structure to perform a root cause analysis in order to identify reasons for such a decrease and to find an adequate solution to increase overall efficiency for implementing IPARD Programme and to strengthen publicity measures in order to attract interesting parties to apply for IPARD measures.

As regards trainings, training rate is lower than expected. However, due to pandemic Covid-19, the AA considers that IA employees attended a considerable number of trainings during the FY 2021, a total of 79. By analysing the training register, the AA noticed that the employees of the DOSC attended trainings related to well drilling, use of GPS device, etc.as recommended by the AA. However, the AA recommends continuous trainings, especially for new employees.

Assessment for the IPARD Agency:

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

Findings related to compliance testing are presented in section 5.8.1 of this Report as follows:

- (3) 4.1.1 Deficiencies in the process for verification of reasonableness of costs;
- (5) 4.1.3 Non-compliance of Contract for allocation of funds with relevant procedures.

Findings:

1) Unequal approach regarding VAT exemption between recipients of IPARD II funds

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

(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 “;

(vi) Procedures for monitoring delivery of co-financing ensuring that the legal requirements are fulfilled.

Level of priority: Major

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

According to Article 28 (2) of Framework agreement (hereinafter FWA):

'(a) All imports by Union contractors shall be allowed to enter Montenegro without being subject to customs or import duties, Value Added Tax (VAT), excise duties and other special consumption taxes or to any other similar tax, duties or charges having equivalent effect. Such exemption shall only be applied to imports in connection with the goods supplied and/or services rendered and/or works executed by the Union contractors under a Union contract. Montenegro shall ensure that the imports concerned will be released from the point of entry for delivery to the Union contractors as required by the provisions of the contract and for immediate use as required for the normal implementation of the contract, without any delays or disputes over the settlement of the above-mentioned duties, taxes or charges;'

'(b) Union contractors shall be exempted from VAT for any service rendered and/or goods supplied and/or works executed under the Union contract. Goods supplied or services rendered or works executed by a contractor to the Union contractor shall also be exempted from VAT in so far that they are connected with the objectives and activities under the Union contract;'

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

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

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

- *'Importer, deliverer of goods, service provider, or recipient of donations (international organization or **natural/legal person**, or other entity conducting business endeavor) in order to exercise rights with regards to exemption of VAT, when it is prescribed by international contract financed by the EU funds, or funds intended for projects implemented in decentralized, indirect and divided governing – is obliged to attach a statement that referred products and services fulfil conditions for VAT exemption. Deliverer of goods, or service provider from point 1 of this article is a contractor performing construction work when referred to realization of projects from civil engineering sector;*
- *The state administration body responsible for the area in which the EU assistance project is being implemented (Ministry of Finance-Directorate for Financing and Contracting of EU Assistance, Ministry of Sustainable Development and Tourism-Directorate of Public Works and Ministry of Foreign Affairs and European Integration) shall issue a certificate for exemption from VAT;*
- *Exemption from VAT shall be made on the total amount of the contract, including European Union and national co-financing funds.'*

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

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

Once the recipient after undergoing the prescribed IPA II procedure, signs a contract with the IA, he is considered to execute work within IPA II assistance, and the signed contract presents a 'Union Contract' – meaning that the Recipient is a 'Union Contractor'. Additionally, it is important to emphasize that the

Recipient's goods and service supplier and construction company that performs work for the recipient are qualified as 'contractors of Union Contractor' or put simply – subcontractors – and that as such, they collectively perform under a 'Union Contract'.

By a detailed analysis of EU and national legislation, the AA determined that according to both of them all recipients of IPA II funds (natural and legal persons) have right for VAT exemption. However, since Ministry of Agriculture, Forestry and Water Management- Directorate for payment as body responsible for implementation of IPARD II programme is not involved in paragraph 2 of Article 13a of national document 'Rules on procedures of VAT exemption of an investor and deliveries of certain goods and services', agricultural holdings, i.e. natural persons²⁰ as recipients of IPARD II funds do not have the right for VAT exemption.

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

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

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

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

Recommendation:

The AA recommends the NAO and the IA to:

- Initiate the update of national legislation regarding VAT exemption in order to align it with FWA requirements. Top management in cooperation with other institutions relevant for tax system should define as soon as possible a solution to enable natural persons as recipients of the IPARD II Programme to exercise their right to VAT exemption in order to be treated equally with all other recipients of IPA II assistance.

AA follow up status: Open

2) Lack of efficiency in gathering documentation

²⁰ Legal persons, according to the Law on VAT certainly have the right to a VAT refund

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

Level of priority: Intermediate

Body/-ies concerned by the finding: IPARD Agency

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.

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.

Recommendation:

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 follow up status: Open

3) Non-compliance between the IPARD II Programme and the Decree for implementation of measures regarding specific eligibility criteria under M3

ICFR 3(c) Control activities - Policies and procedures related to control activities

Level of priority: Intermediate

Body/-ies concerned by the finding: Managing Authority / IPARD Agency

In point 8.2.7 of IPARD II Programme (v.1.3), specific eligibility criteria for obtaining support per each sector under Measure 3 are presented. Namely, according to the IPARD II programme, eligible for support are all recipients, which will have an establishment registered in the Central Register of approved or registered facilities according to the relevant Food Safety Law, with the installed capacity before the final payment of support, as follows:

Milk sector

- Plants for processing of milk with a minimum daily capacity of 500 liters,

Meat sector

- Slaughterhouses with a minimum capacity of slaughtering per day (8 working hours) as follows: 10 head of cattle or 20 pigs or 30 sheep or 30 goats or 3,000 poultry.
- Processing facilities with a minimum processing capacity of 10 tons per annum.

Fruit, vegetable and arable sectors (including cereals, fungi, mushrooms, aromatic and medicinal herbs)

Establishment needs to be registered in the Register of facilities according to the relevant Food safety Law.

Wine sector

- Wineries with a minimum annual capacity of 2,000 litres of wine.

Olive sector

- Olive processing facilities with a minimum annual processing capacity of 500 kg.

Fishery sector and aquaculture

- Processing plants with a minimum processing capacity of 5 tons per annum.

On the other hand, by analysing the Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union (IPARD II programme), the AA identified a non-compliance with the IPARD II Programme. Namely, in Article 23 of the Decree the eligible specific criteria per sectors under Measure 3 are presented, except the criteria for Fruit, vegetable and arable sectors (including cereals, fungi, mushrooms, aromatic and medicinal herbs), which is not listed at all. Therefore, according to the Decree, there is no specific criteria for obtaining support for fruit, vegetable and arable sector under Measure 3, unlike other sectors.

Although the procedures of IPARD Agency are in accordance with IPARD II Programme and thus, adequate check of the specific eligibility criteria applicable to all the sectors is provided, such inconsistency can mislead IPARD staff as well as applicants, especially bearing in mind that the Decree is the document closest to the potential applicants themselves.

Recommendation:

The AA recommends the following:

- Managing Authority, in collaboration with IPARD Agency should supplement the existing Article 23 of the “Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union (IPARD II programme)” with specific criteria related to Fruit, Vegetables and arable sectors (including cereals, fungi, mushrooms, aromatic and medicinal herbs), in order to harmonize it with the IPARD II Programme.

AA follow up status: AA follow up status: Considering the fact that the Government of Montenegro on the session of 17th February 2022 adopted an amendment to the “Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union (IPARD II programme)” related to Article 23 (paragraph 2), this recommendation is considered as **closed**.

4) Non-compliance with requirements for publication of List of operations and recipients

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

Level of priority: Minor

Body/-ies concerned by the finding: IPARD Agency

According to Article 29(4) of the Sectoral Agreement, the List of the operations and recipients should be published once contracts are signed and it should be updated at least each 6 months.

By inside into the website of the MAFWM -IPARD II programme (ipard.gov.me), the AA identified that the List of operations and recipients is not updated according to the SA and procedures, i.e. at least every six months.

For example:

For M1 first List was published on 04.07.2019, second 14.02.2020 (more than 7 months later), third on 18.09.2020 (more than 7 months later) and the fourth list is published on 15.09.2021(one year later).

For M3, first List of operations and recipients was published on 21.06.2019, second on 05.02.2020 (7.5 months later), third on 17.09.2020 (7 months later) and the fourth list is published on 15.09.2021(one year later).

Recommendations:

The AA recommends the IA to publish the List of operations and recipients in line with SA, in order to fulfil the information, publicity and transparency requirements.

AA follow up status: Open

Assessment:

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

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

Findings:

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

- (1) 4.1.1 Ineligible expenditure related to Recipient under application ID no 18-01-3-0004
- (4) 4.1.2 Deficiency in the work of DOSC.

Assessment:

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

- **Control activities: Execution of payments**

Findings:

There were no findings

Assessment:

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

- **Control activities: Accounting**

Findings:

There were no findings.

Assessment:

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

- **Control activities: Advances and securities**

Findings:

There were no findings

Assessment:

Considering that there wasn't any finding, AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently AA assessed this ICFR as "Works well" with the score 3.70.

- **Control activities: Debts management**

Findings:

There were no findings

Assessment:

Even though there wasn't any finding, based on professional judgment including follow up on part related to the debt management and irregularities, 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 3.05.

Assessment for the NAOSO:

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

Findings:

- 1) **Shortcomings in defining objectives of the IPARD Agency**

ICFR 2 (a) Risk management – Objective setting:

- ensuring that objectives are set at all levels with sufficient clarity to enable identification and assessment of risks relating to objectives
- ensuring that operational objectives provide a clear focus to allow allocation of required resources to attain desired performance goals

ICFR 5 (a) On-going and specific monitoring

- ensuring that on-going and specific monitoring is developed and performed to ascertain that the components of internal control are present and functioning at all levels

Level of priority: Intermediate

Body/-ies concerned by the finding: DMS, IPARD Agency

During system audit, the AA identified insufficiently clear and precise defined operational objectives of the IA which should enable identification and assessment of risks as well as provide a clear focus to allow allocation of required resources to attain desired performance goals.

Namely, according to the procedures of the IA (v.2.2), objectives of the IA are established in the document Annual Work Plan (hereinafter AWP). Annex AWP is used for planning objectives in general terms for current year, but it does not provide targets for performing activities and accordingly, defined objectives are not measurable.

On the other hand, Manual of Procedures of the DMS, Chapter Annual Management Declaration (v 2.0) prescribes that the NAO/DMS shall discuss with each IPA OS Body on results to be achieved in the current year and based on documents, discussion and the results from previous years, the NAO/SSOs shall set up the Key Performance Indicators (hereinafter KPIs) and inform each IPA OS Body. The NAO/DMS shall inform the OS/IA **about targets for current year** and give a detailed guidance for reporting on KPIs. The KPIs show which % of achievement is considered as successful, which is presented in the column Expected level of realization.

During audit, the AA determined that the NAO/DMS had not sent the KPIs with **targets to be achieved in current year by the IA**, meaning that the IA was not informed of the targets expected by the NAO to be achieved in the concerned year. According to the procedures for Annual Management Declaration, the NAO/DMS has communication with IA in the end of year N/beginning of the year N+1 on **achievements of KPIs for previous year** for the purpose of issuing Annual Management Declaration. Meaning that, the IA in the end of year N/beginning of the year N+1 receives the KPIs with the targets (expected level of realization) they had to achieve in the previous year N.

Recommendation:

Analysing the procedures and essence of the KPI, the AA considers that the DMS should send to the IA the KPI document at the beginning of the year with defined indicators and targets expected to be achieved in the current year. Received KPIs shall serve to the IA management to understand what the NAO expects from them in the current year and thus, to define the IAs activities in the AWP more concretely and more precisely. Furthermore, at the end of the year N or at the beginning of the year N+1, like up to now, the IA shall send to the DMS fulfilled KPIs with results of achievement in the year N with supporting explanations, in order to prepare the AMD.

AA follow up status: Open

Assessment:

Considering finding described, 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 3.43.

Assessment for the NFD:

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

Findings:

There were no findings

Assessment:

Considering that there wasn't any finding, AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently AA assessed this ICFR as "Works well" with the score 3.54.

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

Findings:

There were no findings

Assessment:

Considering that there wasn't any finding, AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently AA assessed this ICFR as "Works well" with the score 3.54.

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

Findings:

There were no findings

Assessment:

Considering that there wasn't any finding, AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently AA assessed this ICFR as "Works well" with the score 3.54

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

Findings:

There were no findings

Assessment:

Considering that there wasn't any finding, AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently AA assessed this ICFR as "Works well" with the score 3.54.

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

Findings:

There were no findings

Assessment:

Considering that there wasn't any finding, AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently AA assessed this ICFR as "Works well" with the score 3.54

Assessment for the Managing Authority:

- **Information and communication: Implementing functions – Publicity**

Findings:

1) Insufficient publicity of IPARD II Programme

ICFR 4(c) Information and communication:

- *ensuring that the method of communication considers the timing, recipient, and nature of communication as well as legislative and regulatory requirements and expectations.*

Level of priority: Intermediate

Body/-ies concerned by the finding: Managing Authority

According to Article 29, point 2(c) of Sectoral Agreement, the Managing Authority shall be responsible for informing potential recipients about funding opportunities under the IPARD II programme.

During system audit, by analysing documents received by the Managing Authority and information available to the general public about funding opportunities under the IPARD II programme, the AA identified insufficient publicity of measures and public calls under IPARD II Programme.

Namely, in 2020, two public calls had been published for Measure 1 and 3, as well as presentation of Measure 7 was performed, but by analysing realisation of Annual List of Actions for 2019 and 2020 it is noticeable that less publicity activities were carried out in 2020, comparing with 2019, although the indicators of actions should have moved progressively. Accordingly, there were less media appearances by Ministry representatives as well as less press releases.

For example, in 2019 IPARD II programme was mentioned in a total of 114 news articles, through 69 TV channels and 214 times on the news portals, while in 2020 IPARD II programme was mentioned in a total of 81 news articles, through 60 TV channels and 187 times on the news portals. Also, Managing Authority planned recording short videos of successful IPARD II projects in purpose of IPARD promoting, but those videos have not been prepared yet.

Furthermore, on 23rd of June, 2021, first public call for Measure 7 (sub-measure 7.1 - Support of investments for development of rural tourism) was announced. However, the AA auditors noticed very low media activity related to promotion of this new measure before its announcement, especially if we have

in mind that according to the requirements of this public call, some of the conditions had to be fulfilled at the moment of announcing of the public call.

Besides above mentioned, information about public call as well as supporting documentation related to it, were published on the IPARD website on 28th June, 2021, 5 days after announcement of the public call itself, which further narrowed the space for timely and adequately applying on the public call.

The AA is aware that, despite the situation with pandemic COVID-19, the Managing Authority managed to organize workshops in different municipalities, but considers that organising workshops is not a sufficient tool for recognising opportunities by potential applicants. Accordingly, the AA emphasises the necessity to use other ways of communication, such as social media, especially having in mind their popularity, cost-effectiveness, availability to a larger population, speed of information dissemination, easier additional research on the topic, etc. it is worth mentioning that potential applicants for this sub-measure are not only regular agricultural producers, but also people who would like to invest in some more modern form of rural development such as rural tourism.

Recommendations:

The AA recommends the following:

- IPARD presence in media should be higher, before and after announcement of public calls, in order to reach the entire interested public. Taking into account the benefits of social media networks and TV advertisement, as well as situation caused by COVID-19, Managing Authority should consider advertising on such platforms.
- Managing Authority should provide timely detailed information on the official web page of the IPARD II programme.

AA follow up status: Open

Assessment:

Considering finding described, AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently AA assessed this ICFR as "Works well" with the score 3.61.

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

There were no findings of systematic character.

Finding which is classified as finding with **financial impact**, in total amount of 631,76€, is presented in section 5.8.1 finding ((1) - 4.1.1 Ineligible expenditure related to Recipient under application ID no 18-01-3-0004) - (Contract No. 321-2098/18-39), but this finding wasn't result of system audit.

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

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

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

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

Overall assessment – Matrices

The overall conclusion on the ICS is presented in the following matrices²¹:

IPARD Agency

MATRIX - Assessment of the ICF (IPARD AGENCY) - IN CASE OF NO DELEGATED BODIES AND YES ADVANCES																							
Assessment Component Procedure	Control environment						Risk management		Control activities				Information and Communication		Monitoring of the internal control framework				Evaluation at assessment criteria		General conclusion		
	Organisation		Human Resources		Delegation		S	T at 5%	Control activities		IT Security		S	T at 5%	Monitoring		Internal audit		W	T		Weighted total	
	S	T at 15%	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
Operations	Validation and authorization	Administrative controls	3	0.45	2	0.10			3	0.15	2	1.00	3	0.30	2	0.10	3	0.15	3	0.15	20%	2.00	0.40
		On-the-spot controls																					
Payments	Execution of payments		4	0.6	4	0.2			3	0.15	4	2	3	0.3	4	0.2	3	0.15	3	0.15	15%	3.75	0.56
	Accounting		4	0.6	4	0.2			3	0.15	4	2	3	0.3	4	0.2	3	0.15	3	0.15	15%	3.75	0.56
	Advances and securities (*)		4	0.6	3	0.15			3	0.15	4	2	3	0.3	4	0.2	3	0.15	3	0.15	10%	3.70	0.37
	Debts management		3	0.45	4	0.2			3	0.15	3	1.5	3	0.3	4	0.2	2	0.1	3	0.15	20%	3.05	0.61
General conclusion																						2.91	
Assessment of ICF																						works (medium impact)	

LEGEND:

1 to 1.5 = not working

1.51 to 2.5 = working partially (significant impact)

2.51 to 3.5 = works (medium impact)

3.51 above = works well (minor impact)

Overall conclusion on the ICS in IPARD Agency, based on the results of system audit, is Works (medium impact) with the score of 2.91.

²¹ Presented in Annex 1 to this Report

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

Overall average	3.514285714
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Overall conclusion on the ICS in National Fund, based on the results of system audit, is Works well (minor impact) with the score of 3.51.

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 framework
		Organisation	Human resources	Delegation		Control activities	IT Security		
Implementing functions	Provide assurance on the effective functioning of the internal control system	4	4	n/a	3	4	3	3	3

Overall average	3.428571429
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Overall conclusion on the ICS in NAO Support Office, based on the results of system audit, is Works (medium impact) with the score of 3.43.

MA

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	4	n/a	4
	Programme monitoring	4	4	n/a	4
	Evaluation	4	4	n/a	4
	Reporting	3	4	n/a	4
	Coordination	4	3	n/a	4
Implementing functions	Publicity	3	3	n/a	2

Overall average	3.611111111
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Overall conclusion on the ICS in Managing Authority, based on the results of system audit, is Works well (minor impact) with the score of 3.61.

5. AUDITS OF SAMPLES OF TRANSACTIONS

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

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

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

Body	Name	Position	Experience in audit		Type of appointment: permanent (P) or temporary (T)	Chartered accountant / certified auditor	Type of audit work carried out by the body/person
			General	IPARD			
AA	Rina Mučaj Demirović	Head of Department for audit of the program of agricultural and rural development	8 years and 9 months	7 years and 9 months	P	Certified auditor/ State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report

	<i>Marko Tomčić</i>	<i>Senior Auditor</i>	<i>3 years and 11 months</i>	<i>3 years and 11 months</i>	<i>P</i>	<i>Certified auditor/ State auditor</i>	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	<i>Luka Miranović</i>	<i>Junior Auditor</i>	<i>10 months</i>	<i>10 months</i>	<i>P</i>	<i>N/A</i>	ICFR 3(a) – compliance, performing substantive testing on the sample transactions

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

5.2.1 Operational transactions

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

Overall population, identified by AA from which the substantive testing sample were drawn, contains all final payments made by IPARD Agency to the recipients, included in the annual declaration as gross expenditure for the financial year 2021. There were 48 final payments from IPARD Agency to recipients, in total gross amount of 2.577.066,39€ (EU part). Considering number of payments and requirements prescribed in Guideline 2, for substantive testing of operational transactions, AA used non-statistical sampling method using IDEA software in order to have randomly chosen sample. For the purpose of the non-statistical sampling, the sampling unit is a single payment made by the IPARD Agency to the recipient.

Considering both the correct timing of the different audit steps, and the need to perform the audit in a timely and efficient manner, AA decided to use possibility of drawing sample in three stages, in line with point 7.1.4.1 of Guideline no.2. The first sample was drawn from the quarterly Declarations covering the first two quarters (D1 Q1 and D1 for Q2) of FY 2021, the second sample was drawn from Declaration of third quarter (D1 for Q3) and third sample was drawn at the beginning of the year 2022 from the Declaration of the last, fourth quarter (D1 for Q4).

For calculating the sample, AA followed Guideline 2, point 7.1.3.1 and based on submitted D2 and accompanying lists of payments by NAO to the EC which contain 48 final payments as well as overall assessment of ICS of the IPARD Agency assessed as “Works” and AA determined that the minimum sample size should be 9,6 or rounding up to 10 transactions. AA decided to treat all final payments in the year under all measures as one single population and not to use stratified approach. In addition, AA didn’t treat any transaction as a high value item.

First sample was drawn from population which contains expenditures declared (list of payments) in Q1 and Q2 of FY 2021, total of 30 final payments in amount of 923.140,78€. The AA, using IDEA software, randomly chose 6 payments in amount of 196.258,86 €. Second sample was drawn from population which contains expenditures declared (list of payments) in Q3 of FY 2021, total of 4 final payments in amount of

588.258,17 €. The AA, using IDEA software, randomly chose 1 payment in amount of 241.411,70 €. Third sample was drawn from population which contains expenditures declared (list of payments) in Q4 of FY 2021, total of 14 final payments in amount of 1.065.667,44 €. The AA, using IDEA software, randomly chose 3 payments in amount of 225.002,14 €.

When it comes to the number of final payments, out of 48 payments, AA chose 10 payments for substantive testing which presents 20,83% of total population. When it comes to the audited value, out of total amount of final payments 2.577.066,39€ (EU part), AA by substantive testing covered 662.672,70€ which presents 25,71% 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 level²², 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 2021, amounted to 51.541,33 €.

All sampled transactions (10 transactions) are fully tested, both administratively and on-the-spot. Administrative and on-the-spot verifications are carried out based on detailed checklists, developed by the AA before the actual testing is carried out, which fully cover the requirements of the Framework and the Sectoral Agreement, IPARD II Programme, national legislation, as well as specific call for applications of each sampled project.

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

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

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

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

5.2.2 Non-operational transactions

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

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

When it comes to irregularities/debts, there were 2 new cases during 2021 FY, and AA decided to test all of them, i.e. 100 % of population, without need of any sampling methodology.

When it comes to the movements in the IPARD Euro account, AA identified that there were 34 transactions/movements in total (debit and credit) for period from 01/01/2021 to 31/12/2021. Considering that pair "payment execution/control activity" were assessed as "Works well", according to Guideline No 2, minimum sample size is 8 transactions. Using non-statistical methodology by IDEA software, AA randomly chose 9 transaction/movements in Euro IPARD account for substantive testing and verification in order to establish the legality and regularity of the declared principal and interest amounts.

When it comes to the advance payments, there were 12 transactions during 2021 FY. 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 transactions for substantive testing and performed verification in order to establish the legality and regularity of the declared amounts.

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

Also, AA verified that the interest was calculated on all debts on which the interest should 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 2021 (D2).

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

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

During substantive testing of the advance payments, AA verified legality and regularity of these transactions. Namely, 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 made to the recipient's bank account.

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

Taking into consideration number of payments during FY 2021, statistical sampling is not applicable. As mentioned above AA used non-statistical methodology.

5.4 Reconciliation of the expenditure declared to the Commission in the financial year to the sampled expenditure.

Reconciling items include negative items where financial corrections have been made in the financial year. Considering that Montenegro using euro the part for reconciliation with national currency is not relevant.

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

	Amount of expenditure declared	
	Public contribution (EU + national)	EU part only
Quarterly declarations		
1st quarter	459.271,88	344.453,89
2nd quarter	771.582,56	578.686,89
3rd quarter	1.239.427,89	929.570,91
4th quarter	2.217.721,62	1.663.291,18
Sum of quarterly declarations	4.688.003,95	3.516.002,87
Annual declaration (D2)		3.516.002,87
Difference		0,00

We can confirm that there are no differences between the expenditure and the revenues declared with the interim quarterly declarations (D1s) and the eligible expenditure declared with the Annual Declaration (D2) related to the EU part for the FY 2021.

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

	EUR (EU part only)
Amount of gross expenditure declared in the annual declaration D2	3.525.572,47
Sum of payments stated in the list of payments	3.525.572,47
Difference	0,00

AA can confirm that in FY 2021 there were no differences between the payments made and registered in the List of payments and gross expenditure declared in the Annual Declaration (D2), so the Annual Declaration (D2) is reconciled with the List of payments.

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

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

- Payments stated in the list of all payments were made in the financial year 2021;
- No double payment to a recipient was made;
- A payment order for all the payments was issued within six months from the date of the submission of the payment request by the recipient;
- Payments to the recipient were made within three working days of the date of debiting the amount against the IPARD Euro Account.

In addition, according to the Guideline 2, point 8.1 (3) the AA verified correctness of the information (dates and amounts) stated in the list of payments. The verification is performed on a randomly chosen sample of 10 final payments, i.e. 20 % of 48 of transaction in the list using non-statistical methodology by IDEA software.

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

Reconciliation of the balance of IEA	
Document	Amount
D2	5.236.709,13 €
Bank account statement 31.12.	5.236.709,13 €
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 0,31 € 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 5.236.708,82€ is presented and in the analytical card of IPARD Euro account the amount of 5.236.709,13€ stands in the end of the financial year. DMS provided an explanation through checklists related to the financial statements in which it was stated that due to accounting system, amount paid cannot be higher than amount requested and because of that lower amount was recorded. However, the AA identified that above-mentioned difference is the result of applying a different approach in the calculation of the EU part by the EC and NF. The EC during calculation of the EU part applies a percentage of 75% to the total amount of public contribution presented within quarterly declarations of expenditure and revenue (Form D1). On the other hand, NF, based on IA information applies a percentage of 75% on each payment separately. Difference in presented approach resulted in difference in 0,31€.

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

5.4.6 Reconciling the declared closing balance of the debtors' ledger

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

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

Reconciliation of the balance of debtors' ledger	
Document	Amount
D2	70.150,12 €
Debtors' ledger	70.150,12 €
Difference	0,00 €

Closing balance of the debtors' ledger declared in the annual declaration (D2) is equal to the closing balance of the actual debtors' ledger (balance on 31.12.2021).

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

Gross amount paid by IPARD Agency and declared in D2 is 3.525.572,47 €, a recovered amount based on debtor ledger is 9.569,60 €, administrative errors are 0,00 € and net amount is 3.516.002,87 €.

AA can confirm that the difference between the gross and the net eligible expenditure is not more than the amount of administrative errors, written-off amounts and recoveries returned in the financial year 2021.

5.4.6.3 Roll forward of the debtors' ledger

Debtors' ledger year n	Amount		
	EU part		
(a) Opening balance year n	48.900,00 €	48.900,00 €	Debtors' ledger - Closing balance year n-1
(b) New cases	30.819,72 €		
(c) Recoveries	9.569,60 €		
(d) Written-off debts	0,00 €		
(e) Corrections	0,00 €		
Closing balance year n a+b-c-d+/-e	70.150,12 €	70.150,12 €	Closing balance as declared in the annual declaration for year n

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

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

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

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

Reconciliation of the balance of IEA	
Document	Amount
D2	5.236.709,13 €
Bank account statement 31.12.	5.236.709,13 €
Difference	0,00 €

AA can confirm that closing balance of the IPARD Euro account declared in the D2 is equal to the actual closing balance of the IPARD Euro account on December 31st, 2021.

5.4.7.2 Roll-forward of the IPARD Euro account

During 2021 the Commission transferred to the IPARD II Euro Account three payments on the basis of quarterly declarations related to FY 2021 in total amount of 1.852.711,76 € as well as one payment on the basis of quarterly declaration related to FY 2020 in total amount of 808.805,88 €. During FY 2021, there was recovery transaction in amount of 9.569,60 €. On December 31st 2021, on the IPARD II Euro Account there was an amount of 5.236.709,13 €.

In the course of FY 2020 there was no interest, and balance of interest by December 31st 2021 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	6.091.194,36	0,00
Current account <i>[account number]</i>	6.091.194,36 [907-0000000086001-40]	0,00
Deposit account <i>[account number]</i>	0,00	0,00
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00
<i>[Deposit number] / [due date]</i>	0,00	0,00
<i>[Deposit number] / [due date]</i>	0,00	0,00
Transactions in the financial year		
Amounts received from the Commission in the financial year	2.661.517,64	

	Principal amount (EUR)	Interest (EUR)
- for pre-financing	0,00	
- for covering expenditure executed in the previous FY	808.805,88	
- for covering expenditure executed in the current FY	1.852.711,76	
Interest accrued on the IPARD Euro account during the financial year		0,00
Amount of expenditure	3.525.572,47	0,00
Amount of national contribution financed from interest		0,00
Recovered amounts	9.569,60	
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	5.236.709,13	
Current account	5.236.709,13	0,00
Deposit account	0,00	0,00
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00
<i>[Deposit number] / [due date]</i>		
<i>[Deposit number] / [due date]</i>		

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

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

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

The reconciliation is presented in the table below:

	IPARD Euro account		Annual declaration amount of expenditure declared	Difference
	Principal amount (EUR)	Interest (EUR)		
Opening balance of the IPARD Euro account	6.091.194,36	0,00		
Current account [<i>account number</i>]	6.091.194,36 [907-0000000086001-40]	0,00		
Deposit account [<i>account number</i>]	0,00	0,00		
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00		
[<i>Deposit number</i>] / [<i>due date</i>]	0,00	0,00		
[<i>Deposit number</i>] / [<i>due date</i>]	0,00	0,00		
Transactions in the financial year				
Amounts received from the Commission in financial year	2.661.517,64			
- for pre-financing	0,00			
- for covering expenditure executed in the previous FY	808.805,88			
- for covering expenditure executed in the current FY	1.852.711,76			
Interest accrued on the IPARD Euro account during the financial year		0,00		
Amount of expenditure	3.525.572,47	0,00	3.525.572,47	0,00

	IPARD Euro account				
	<u>Principal amount (EUR)</u>	<u>Interest (EUR)</u>			
Amount of national contribution financed from interest		0,00	Debtors' ledger - EU part only		Difference
			Principal amount	Interest	
Recovered amounts	9.569,60		9.569,60	0,00	0,00
Written-off amounts	0,00		0,00	0,00	0,00
Other transactions [to be broken down in detail]					
Expenditures excluded from the declarations of expenditure	0,00	0,00			
- financial adjustments made by the NF	0,00				
Financial corrections made by the Commission	0,00				
Bridge financing	0,00	0,00			
- funds transferred from state budget	0,00				
- funds transferred to the state budget	0,00				
Closing balance of the IPARD Euro account	5.236.709,13				
Current account	5.236.709,13	0,00			
Deposit account	0,00	0,00			
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00			
<i>[Deposit number] / [due date]</i>					
<i>[Deposit number] / [due date]</i>					

As results of the audit of the Annual Accounts, and the reconciliations made for IPARD II for FY 2021, no deviations were found regarding completeness, accuracy and veracity of the amounts.

Total amount of expenditure declared to the Commission for FY 2021 equal to 3.525.572,47²³ € (EU part) within four quarterly declarations submitted by NAO. First one (D1 – Q1) was declared on 26th April 2021 in amount of 344.453,89 €, second (D1 – Q2) was declared on 20th July 2021 in amount 578.686,89 €, third (D1 – Q3) was declared on 29th October 2021 in amount of 929.570,91 € and fourth (D1 – Q4) was declared on 25th January 2022 in amount of 1.672.860,78 €.

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

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

AA confirm that the negative amounts have been treated as a separate population. During FY 2021, there was one negative item related to the recovered amounts.

5.6 Use of non-statistical sampling

Considering requirements from Guideline 2 “Audit strategy”, point 7.1.3.1 where is defined that in case of population with 500 transactions or less, non-statistical sampling methodology should be used, and number of total transactions during FY 2021, where IPARD Agency executed 48 final payments to recipients, 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	2.577.066,39
b	Materiality = 2% of a	51.541,33
c	Number of transactions in the IPARD population	48
	<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	9,6

²³ Total net amount declared to the EC

	3. Sample tested	
	<u>3.1 Sample size</u>	
f	Number of transactions tested as part of the substantive testing sample	10
g	Value of the sampled transactions tested	662.672,70
	<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)	1
j	Value of random errors found in the sampled transactions (overpayments only)	631,76
k	Error rate = j / g	0,1%
l	Extrapolated error = $k * a$	2.456,85
m	Total no. of financial errors found in the substantive-testing sample which have been classified as known errors	0
n	Value of financial errors found in the substantive-testing sample which have been classified as known errors	0
	4. Tested outside of the sample	-
o	Number of additional transactions substantively tested outside the sample	0
p	Total no. of financial errors found in additional transactions substantively tested outside the sample	0
q	Value of known errors identified in additional transactions substantively tested outside the sample	0.00
	5. Errors found during compliance testing	
r	Total no. of financial errors found in compliance testing	0
s	Value of financial errors found during compliance testing classified as known errors	0.00
	6. Calculation of the financial impact	-

t	Total error = l + n + q + s	2.456,85
u	Materiality = b	51.541,33

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

5.7.2 Non-operational transactions IPARD Euro account

5.7.2.1 Debts

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

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

5.7.2.2 Advances and securities (if applicable)

As regards advances and securities, there were 12 advances paid to recipients and declared to the EC. As a result of substantive testing of sample of 9 advance payments, no errors were identified.

Basic data	Advances and securities
Value of the population	948.506,08
Materiality	18.970,12
Number of transactions in the population	12
Sample size	9
Total value of sampled items tested	764.586,57
Financial errors found from sampling:	No errors found
Extrapolated total error	0,00
Conclusion	
Total error	0,00
Materiality	18.970,12

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

5.7.2.3 IPARD Euro account

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

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

5.8 Analysis of the principal results of the audits (sample items selected and audited, together with the respective amount and types²⁴ of error by operation) as well as the nature²⁵ of errors found, root causes and corrective measures proposed, including mitigating these errors in the future.

5.8.1 Operational transactions

Level of importance: Major	Body and area concerned: IPARD Agency – on the spot control
Finding number and title: 1. Ineligible expenditure related to Recipient under application ID no 18-01-3-0004 (ref 4.1.1. of final audit report for Q1 and Q2)	
Project(s) concerned: ID no 18-01-3-0004 (Contract No. 321-2098/18-39), Measure 3	
Description of the finding: ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements. The Audit Authority conducted administrative and on the spot verification of the Recipient under application ID no. 18-01-3-0004 (Contract reference no. 321-2098/2018-1), who received support for construction and equipping of a winery through Wine sector, within Measure 3. Part of the investment related to the construction, consists of the construction of several facilities that make up the winery as a whole (Facility B – turbulent fermentation, Facility C - facility for workers (shower, wardrobe, toilet), Facility Part of Building – Silent fermentation, tunnel, bottling, tasting and staircase and Facility Ground floor - ceremonial hall, souvenir shop, toilet and wardrobe. During this audit, the AA identified several deficiencies related to construction, which are listed below: <ul style="list-style-type: none">• According to the main project, offer No. 08-03-19 from ████████ “LLC and invoices from same supplier, the whole winery, i.e. all facade walls of facilities, should have been covered with stone. According to the contract signed between the Recipient and the IPARD Agency, the surface of the facade walls of Facility C should have been 50,34 m². The controllers of the IPARD Agency, during their on-spot verification before payment to the Recipient, measured that the surface of the facade walls of the Facility C is 50,49 m², and according to the procedures the IPARD Agency accepted 50,34 m² as the eligible quantity during the verification of the Payment request. However, according to AA auditors' measurements, dimensions of Facility C covered with facade stone amount to approximately 38,42 m².• According to the main project, offer No. 08-03-19 from ████████ “LLC and invoices from same supplier, all facade walls of the whole winery should have been covered with stone of highest quality	

²⁴ Random, systemic, anomalous

²⁵ For instance: eligibility, public procurement, state aid

and according to submitted invoices the price of facade stone for each facility of the winery is 52,38 €/m². However, AA auditors identified difference between facade stone on the Facility C comparing with Facility B, as well as with Facility Ground floor. Namely, there is a clear difference in the type and degree of stone processing. The stone in Facilities B and Ground floor is of high quality and processed on all sides and justifies the given price, in relation to the stone that covers the facade walls of Facility C.

- According to the main project, offer No. 08-03-19 from ████████ LLC and invoices from same supplier, the thresholds of the outer doors (on Facility B – 1,2 m, Facility C – 1,40 m and Facility Ground floor – 1,75 m) should have been lined with stone. The AA auditors identified that instead of stone, the recipient lined the thresholds with tiles. According to the Authorisation table of the IA, the reported quantity of the stone for thresholds on the outer doors is accepted and paid to the recipient. The price of stone for thresholds is 21,98€/m.

- According to the main project, offer No. 08-03-19 from ████████ LLC and invoices from same supplier, the interior walls of part of Facility Ground floor, concretely ceremonial hall and souvenir shop should have been covered with stone. According to the Contract and invoices, the recipient reported 160,00 m², while the controllers of the IA measured 140,87 m². The AA auditors identified that the walls are covered with stone but the measured surface area of the interior walls is smaller than IPARD Agency measurement, i.e. approximately 90,1 m². The accepted and paid price of decorative stone for interior walls is 41,32 €/m².

Recommendation: The AA recommends following:

- The IPARD Agency should initiate recovery of funds related to difference in measurement of quantity of facade stone on the Facility C, for which it has been determined that the surface area is smaller than the one accepted and paid to recipient (50,34m²-38,42m²=11,92 m²), in amount of 312,18 € (EU part 234,14 € and national part 78,04 €).

$(11,92m^2 * 52,38€ = 624,37 * 50\%(\text{support}) = 312,18€$.

- The IPARD Agency should make additional efforts to determine how much the price and quality of the facade stone on Facility C differs from the one that is authorised and paid to recipient (conduct market research, request further analysis of the EvC, etc.). After additional analysis, the IPARD Agency should initiate recovery of funds in amount which presents the difference between authorized and newly determined price.

- The IPARD Agency should initiate recovery of funds related to thresholds of the outer doors, for which it has been determined that are not lined with stone as it is approved and paid, in amount of 47,81 € (EU part 35,85 € and national part 11,95 €).

$((1,2m + 1,4m + 1,75m) * 21,98€/m = 95,61€ * 50\%(\text{support}) = 47,81€$.

- The IPARD Agency should initiate recovery of funds related to difference in measurement of quantity of interior stone on the Facility Ground floor, for which it has been determined that the surface area is smaller than the one accepted and paid to recipient (140,87m²-90,1m²=50,77m², in amount of 1.048,9 € (EU part 786,68 € and national part 262,22 €).

$(50,77m^2 * 41,32€ = 2.097,82€ * 50\%(\text{support}) = 1.048,9€$

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

Auditee's response: Partially accepted

- Regarding the surface of the facade walls of Facility C that should have been 50,34 m² finding is partially accepted. The controllers of the IPARD Agency went out on the spot again and measured the area of the surface of the facade of 41.70 m². This area was reached by measuring

three sides (walls) of the of Facility C, while the fourth side is leaning on building B and not having a facade stone on it. The error occurred for the first time because fourth side was also calculated. The IPARD Agency will initiate recovery of funds in amount of 226,28€ (EU part 169,71 € and national part 56.57 €).

$(50,34m^2 - 41,70m^2 = 8,64 m^2)$, $(8,64m^2 * 52,38€ = 452,56 * 50\%(\text{support}) = 226,28€$).

- Regarding difference between facade stone on the Facility C comparing with Facility B, as well as with Facility Ground floor finding is not accepted. After an inquiry addressed to the recipient, IPARD Agency received a response from ████████ LLC, stone is from the same production plant, with slightly different finishing.

Also, IPARD Agency sent an inquiry to the evaluation commission, to which we received the answer that it was the same stone that was treated differently in the plant.

Taking into consideration all abovementioned, IA made additional efforts to determine the difference between the quality and price of used stone in Facility B and C, and concludes that there is no need to initiate the recovery of funds from the user.

In addition, DOSCRDM shall conduct additional training to increase the invernness of controllers regarding mentioned issues.

- Regarding thresholds of the outer doors, the finding is accepted. The recipient stated on the spot that he owns them, but he moved them because of their non-functionality. Controllers of the IPARD Agency have photographed the mentioned removed thresholds. Also, thresholds of the outer doors are not made from ceramics tiles, they are made of stone. The IPARD Agency will initiate recovery of funds in amount of 47,81€

- Regarding the interior walls of part of Facility Ground floor, concretely ceremonial hall and souvenir shop where the IA measured 140,87 m² finding is not accepted. The controllers of the IPARD Agency went out on the spot again and measured the approximately the same surface area of the facade - 140.01m². In this area we measured interior walls of part of Facility Ground floor, concretely ceremonial hall and souvenir shop as well as the part of the space where the stairs leading to the next building (wine cellar tunnel).

Conclusion by the AA: After receiving the Management response, the AA analysed the obtained data and supporting documents and determined as follows:

- Regarding the surface of the facade walls of Facility C, after analysing the AA auditors' measurement, the IA calculation within the response on draft report, the IA OTSC photos prior payment as well as the form of the facility itself, the AA came to the same dimensions of the facade walls for the Facility C, ie. approximately 38,42m². Accordingly, the AA recommends the IA to initiate recovery of funds related to difference in measurement of quantity of facade stone on the Facility C, for which it has been determined that the surface area is smaller than the one accepted and paid to recipient $(50,34m^2 - 38,42m^2 = 11,92 m^2)$, in amount of **312,18 € (EU part 234,14 € and national part 78,04 €)**.

$(11,92m^2 * 52,38€ = 624,37 * 50\%(\text{support}) = 312,18€$).

The implementation of the recommendation will be further monitored.

- Regarding difference in quality between facade stone on the Facility C comparing with Facility B, as well as with Facility Ground floor, after receiving the auditee's response, the AA has embarked on market research to determine the reasonableness of price of facade stone. The price obtained by market research for façade stone presented in Photo no.1, with which the Facility C is covered is 27,27 €/m² (without VAT). As mentioned before, the stone in Facilities B and Ground floor is of high quality

and justifies the given price. The conducted market research confirmed the very difference in the quality of facade stones and that the façade stone on Facility C does not justify the accepted and paid price of 52,38€/m2 (without VAT). Thus, the AA recommends to the IA to initiate the recovery of funds in amount **482,36€ (EU part 361,77€ and national part 120,59€)**.

$((38,42m^2 * 52,38€/m^2) - (38,42m^2 * 27,27€/m^2)) = 964.72€ * 50%(\text{support}) = 482,36€$

Attachments: Photo 1 Facade stone Facility C, Photo 2 Façade stone Facility B and Ground Floor

The implementation of the recommendation will be further monitored.

- Regarding thresholds of the outer doors, the IA shall initiate the recovery of funds in amount of **47,81 € (EU part 35,85 € and national part 11,95 €)**.

$((1,2m + 1,4m + 1,75m) * 21,98€/m = 95,61€ * 50%(\text{support}) = 47,81€$

The implementation of the recommendation will be further monitored.

- As to the squaring of the interior walls of the Facility Ground floor, covered with stone, the AA accepts the response of the auditee. Considering that the recipient planned the costs of the stairs in the total expenditure of the Facility Ground floor as well as in the total expenditure of the Facility Part of the building, the AA primarily calculated the costs of the stairs only in the Facility Part of the building. However, after receiving the response of the auditee and after analysing the table of authorisation, the AA determined that the squaring of the interior walls covered with stone in the Facility Ground is approximately 140,00m² (including the walls above the stairs) and consequently **this part of the finding is considered as closed**.

Quantification of the financial impact: This finding has a financial impact of 631,76 EUR (EU contribution) for project 18-01-3-0004.

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

Up the moment of submission AAAR, IA did not take any further actions. Considering that, AA will follow up and report about actions taken by the auditee within AAAR for FY 2022.

Level of importance: Intermediate	Body and area concerned: IPARD Agency – administrative control
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Finding number and title: 2. Underpayment of the recipient under application ID no 18-01-3-0004 (ref 4.1.2. of final audit report for Q1 and Q2)

Project(s) concerned: ID no 18-01-3-0004 (Contract No. 321-2098/18-39), Measure 3

Description of the finding:

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

According to the procedures for authorisation of payment (v.1.1), advisors of the Department for Payments (hereinafter DAP) present in Sheet 2 of the Annex DP-DAP-00-18 Authorization table among other information, the quantity, price without VAT and total amount from the contract signed with recipient, as well as from the received invoices and bank statements from recipient.

In Sheet 3 of the abovementioned Annex, the extracted data from Sheet 2 are compared with the data from field control, and on the basis of all entered data (contract, invoice/bank statement, field control), the minimum price/quantity and thus the minimum total amount is automatically calculated.

During administrative verification of the recipient under application ID no. 18-01-3-0004 (Contract reference 321-2098/2018-1), the AA auditors identified some deficiencies within the Authorization table.

Namely, in Sheet 3 of the Authorization Table, the advisors extracted wrong data (prices without VAT) from the column "Contract with recipient", and since the minimum prices are calculated automatically based on the entered wrong data, the total minimum amount is miscalculated too.

The table below presents the part of the eligible costs that were miscalculated, and as such paid to the recipient, the correct calculation made by the AA, as well as the difference. As it is presented in the table, the amount that should have been accepted as eligible expenditure is reduced by 142,00€ and thus, the recipient was underpaid by 71,00€ (53,25€ EU part and 17,75€ national part):

Type of investment	Unit	Correct calculation							Wrong data extracted from Sheet 2		Erroneous values calculated automatically and paid to recipient			overpayment/underpayment	
		Contract/ Annex		Invoice		OTSC	Min quantity	minimum price	minimum total amount	Contract/Annex		Mini quantity	Min price		Min total amount
		Quantity	Price without VAT	Quantity	Price without VAT	Quantity				Quantity	Price without VAT				
Spiralno armirano PVC crijevo fi 60	m	20.00	11.00	20.00	11.00	20.00	20.00	11.00	220.00	20.00	8,150.00	20.00	11.00	220.00	0.00
Spiralno armirano PVC crijevo fi 40	m	30.00	7.00	30.00	7.00	30.00	30.00	7.00	210.00	30.00	7,100.00	30.00	7.00	210.00	0.00
Spiralno armirano PVC crijevo fi 20	m	30.00	4.00	30.00	4.00	30.00	30.00	4.00	120.00	30.00	28,120.00	30.00	4.00	120.00	0.00
Armatura Garola 60/Cr.Nastavak fi 60 mm	pcs	6.00	18.00	6.00	18.00	6.00	6.00	18.00	108.00	6.00	11.00	6.00	11.00	66.00	-42.00
Armatura Garola 40/Cr.Nastavak fi 40mm	pcs	10.00	12.00	10.00	12.00	10.00	10.00	12.00	120.00	10.00	7.00	10.00	7.00	70.00	-50.00
Redukcija Garola 40/Cr.Nastavak fi 20mm	pcs	5.00	14.00	5.00	14.00	5.00	5.00	14.00	70.00	5.00	4.00	5.00	4.00	20.00	-50.00
Spona Garola 60	pcs	5.00	11.00	5.00	11.00	5.00	5.00	11.00	55.00	5.00	18.00	5.00	11.00	55.00	0.00
Spona Garola 40	pcs	10.00	10.00	10.00	10.00	10.00	10.00	10.00	100.00	10.00	12.00	10.00	10.00	100.00	0.00
Zaptivka Garola 60	pcs	10.00	2.00	10.00	2.00	10.00	10.00	2.00	20.00	10.00	14.00	10.00	2.00	20.00	0.00
Zaptivka Garola 40	pcs	10.00	1.50	10.00	1.50	10.00	10.00	1.50	15.00	10.00	11.00	10.00	1.50	15.00	0.00
the amount that should have been accepted as eligible expenditure															-142.00
Underpayment (support 50%)															-71.00
EU part															-53.25
national part															-17.75

Recommendation: The AA recommends the IA to calculate the eligible costs with due diligence, following relevant procedures in order to protect the financial interests of both the recipient and the EC/IA itself.

Response of the Auditee: Accepted

DAP will create an internal check list for supervision of authorization of table in order to avoid such miscalculation. Also, it will be organized training for advisors in DAP.

Miscalculated amount of support of 71,00€ (53,25€ EU part and 17,75€ national part) will be recovered to recipient, and all appropriate actions will be taken.

Taking in accounts that the recovery of the funds will be performed, in accordance with previous finding, DP will recalculate necessary amount to be recovered taking into account the amount that is underpaid to the recipient (i.e. (226,28€ + 47.81€) - 71.00€ = **203.09€**).

Conclusion by the AA: According to IPARD Guidelines, all identified deviations constitute errors, which may have either a financial or a formal nature. Consequently, errors can be classified as financial or formal errors. A financial error is an overpayment to the recipient (presented in Finding 4.1.1), meaning an error that has an influence on the correctness of the declared amount of expenditure, closing balance of the IPARD Euro account or closing balance of the debtors' ledger. On the other hand, an error is merely formal if it does not call into question the legality and regularity of the payment. For the purpose of this note, also **underpayments are considered as formal errors** (presented in Finding 4.1.2). This means that a formal error is an error without financial effect (the payment, debt/irregularity and/or the balance of the IPARD Euro account is actually correct as to its amount), but represents a transaction where one or more controls have failed.

Further, according to the guidelines, in order to present financial errors properly, the net effect of overpayments and underpayments should not be calculated, due to the fact that only overpayments, and not underpayments, shall be taken for the purpose of the calculating the error rate for expenditure.

In accordance with the above, **the recipient shall return the full amount of overpayment, i.e. in total 842,35€ (EU part 631,76€ and national part 210,58€).**

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: This finding does not have any financial impact on funds of IPARD II Programme.

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

Up the moment of submission AAAR, IA did not take any further actions. Considering that, AA will follow up and report about actions taken by the auditee within AAAR for FY 2022.

Level of importance: Intermediate	Body and area concerned: IPARD Agency – administrative control
Finding number and title: 3. Deficiencies in the process for verification of reasonableness of costs (ref 4.1.1. of final audit report for Q3)	
Project(s) concerned: ID no. 20-02-1-0021 (Contract No. 09-908/20-8213/24), ID no. 19-02-3-0049 (Contract No. 321-4467/19-38)	
Description of the finding:	

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%, i.e. 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), i.e. 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.

Recommendation: *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.*

Auditee's response:

1. Auditor's said:

- *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."

Answer:

The work of the Evaluation Committee is based on the prescribed procedures in the manual of the Evaluation Committee, which prescribes a detailed deadline for work from version 2.0, as well as

procedures in case of violation of these deadlines, because previously the audit found it necessary to specify deadlines.

As of version 2.0, two months are prescribed as a deadline for making a decision, and we consider this deadline is optimal, taking into account the number of requests and offers sent to the members of the Evaluation Committee, especially in the case of Measure 3.

As for the agreements signed by the members of the Commission, these are standard Agreements that are done according to the procedures of the World Bank, but the members of the Commission work exclusively according to the prescribed and adopted procedures of the Ipad Agency.

- Evidence (Manual 2.0)

2. Auditor's said:

- 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."

Answer:

We accept the recommendation

We will improve the work and ask for an exemption for the version according to which the Work of the Department for Technical and Economic Analysis started, and the Head of the Structural Support Sector will supervise 5% of completed cases of the Evaluation Commission.

3. Auditor's said:

- 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."

Answer:

We accept the recommendation

When it comes to previous calls and variations according to which the members of the Commission work, the first minutes from July 24, 2018. the rules are defined that are the same as the variations that were valid for the Reference Price Database, and which are prescribed by the manual for the operation of the database (version 1.0, 1.1, 1.2). According to the mentioned versions (and the same rules), the following Public Calls were published: Measure 1 - I JP; Measure 3 - I JP; Measure 3 - II JP.

Version 2.0, according to which the Second Public Call for Measure 1 was published, changed the variation, and then a new minutes was made on 30.07.2020. years. Taking into account that the work of the Commission has not changed substantially, no special minutes have been made, but if the procedures are followed, it can be concluded that the minutes were made in accordance with the changes in procedures.

In the future, we will improve the procedure in the part of a more detailed description of the work of the Evaluation Commission by making minutes for each published call, which will more clearly define the rules.

(Evidence: Minutes of Measure 3 - III JP, Measure 7 - I JP)

4. Auditor's said:

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

Answer:

We accept the recommendation.

For the next Public Calls, we will clearly define in the minutes that will be made for that particular Public Call, which rules will be applied to justify the prices of the system. Experience so far has shown that it is more logical to look at the entire offer in the total amount, rather than the item individually. This is because the regulation also stipulates that the functional unit for IPARD is eligible for support.

5. Auditor's said:

- 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)“*

Answer:

In the meantime, a new department for technical and economic analysis was formed, which was defined by the systematization, among other things, to monitor the work of the members of the Evaluation Commission. In this way, the procedure has already been improved and the control system has been improved.

In this regard, in the future more attention will be paid to the monitoring of the calculation of variations by the members of the Commission.

6. Auditor's said:

- *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."

Answer:

The work of the Evaluation Commission is prescribed by the manual and there are 4 ways in which the members of the Commission can give their opinion on the justification of costs. One of those ways is professional experience.

As the professional experience itself is such that no audit trail can be left, we do not accept the recommendation for this part.

Also, IA does not have a Reference Price Database for processing. This is because it is not possible to make a RPD (by type, model and type) for this type of specific equipment, which is ordered and made for each special case.

For that reason, the Evaluation Commission was formed, whose members are experts from various fields, who, due to the references they have and based on their many years of experience, can decide on the reality of prices.

However, we will hold a meeting with the members of the Commissions where we will point out your recommendations and suggest that they use their professional experience in situations where it is impossible to leave an audit trail due to the specifics of the investment itself.

Conclusion by the AA:

1. *The AA considers that the defined deadline of two months for the EVC opinion on the reasonableness of prices significantly extends the application processing period, and that it is justified only for more complex projects, such as projects under M3. The AA will closely monitor the work of the EVC regarding compliance with the deadline for responding to the request for opinion.*

The implementation of the recommendation will be further monitored.

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

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

Note: The AA does not agree with IA's statement that the minutes of the EVC were made in accordance with changes in procedures and in accordance with variations that were valid for RPD. For example, the EVC makes a difference in the eligible variations depending on whether the price of the item is less than or greater than EUR 1.000,00, which is not provided for in the RPD procedures. In addition, if we analyse the RPD procedures presented in v.1.1 of MoP, a variation of 5% is accepted, while according to v.1.2 of the MoP, a variation of 10% is accepted in relation to the RPD. On the other hand, according to the EVC minutes from July 24th, 2018, for items over EUR 1.000,00 a variation of 5% is accepted, while for items less than EUR 1.000,00 the deviation is tolerated directly up to 15%.

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

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

6. *According to the Guideline for EVC, procedures of work include inter alia following:*

- for each individual offer, one checklist shall be used and members of the committee are obliged to perform check for all items from the offer and to provide the proofs about checks for each individual item from the offer.*
- To reach the reasonable price and to get the positive opinion, it is necessary to investigate all the sources prescribed by check list and based on this investigation adopt the opinion that the delivered price of the item is in accordance with the actual market price, i.e. whether it is reasonable.*

- In case of construction, tailor made equipment or the items where evaluation committee does not find at least three prices the suggestion for the realistic price shall be made based on the evaluation committee expertise and the enough audit trail for these cases shall be kept.
- Evaluation committee is obliged to keep each checklist for each offer and following documentation and proofs about conducted checks for each specific question in the checklist.

Besides above mentioned, which is prescribed within the working procedures of the EVC, the AA wants to emphasize that this finding does not aim to call into question the knowledge and years of experience of the members of the evaluation committee, but to raise awareness of the need of providing adequate audit trail for issuing opinions on the reasonableness of prices, especially knowing that EVC's assessment will be used for comparison with another offer in the future. Also, when comparing offers and prices, characteristics relevant for comparison must be taken into account and explained in the supporting documents.

The implementation of the recommendation will be further monitored.

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

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

Considering that AA issued final engagement report on 26th January 2022, AA will follow up and report about actions taken by the auditee within AAAR for FY 2022.

<p>Level of importance: Intermediate</p>	<p>Body and area concerned: IPARD Agency – on the spot control</p>
<p>Finding number and title: 4. Deficiency in the work of DOSC (ref 4.1.2. of final audit report for Q3)</p>	
<p>Project(s) concerned: ID no 20-02-1-0021 (Contract No. 09-908/20-8213/24), Measure 1</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>During administrative and on the spot verification of recipient under application ID No. 20-02-1-0021 (Contract No. 09-908/20-8213/24), AA identified a deficiency in the work of the Department for on the spot control (hereinafter DOSC).</p> <p>Namely, the recipient applied for investment related to apple orchard and anti-hail net system, under Measure 1. After implementation of investment and submission of Payment request by recipient, according to the procedures DOSC performed on the spot control before payment. Considering that part of investment related to the anti-hail net system included setting up of the concrete pillars (small and big ones) which hold the anti-hail net, one of the tasks of the DOSC controllers was to determine the exact number of installed pillars.</p> <p>Based on the working papers of the controllers in which the auditors had access to, the AA identified an incorrect calculation of the data determined by DOSC. During summarizing the data obtained from on the field, DOSC controllers wrongly calculated the number of small pillars. Namely, controllers made a technical error and instead of 2.140 small pillars, which simultaneously coincides with the calculation of the AA auditors, after the on the spot check, they calculated sum of 2.040 and thus provided wrong information to the Department for authorization of payments. It should also be noted that each small pillar has a cap on top, which means that also 100 caps were less calculated and consequently paid.</p>	

Considering that price of one small pillar is EUR 15,59(without VAT) and price of one cap for small pillar is EUR 3,21 (without VAT), the AA calculated that the recipient was paid less in total amount of EUR 1.316,00 without VAT. $((100 \times 15,59) \times 70\% + (100 \times 3,21) \times 70\% = 1.316,00)$.

Recommendation: The AA recommends the DOSC controllers to act with due diligence while performing on the spot controls and summarizing the results, in order to protect the financial interests of both the recipient and the EC/IA itself.

Auditee's response: Accepted

Auditee's response: We accept the audit findings and we will follow the recommendations of the audit authority.

A special meeting and training on this topic will be held for on the spot controllers in order to increase awareness of technical errors so that they do not recur to the detriment of IPARD users and to the detriment of the IA.

Conclusion by the AA:

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: This finding does not have any financial impact on funds of IPARD II Programme.

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 26th January 2022, AA will follow up and report about actions taken by the auditee within AAAR for FY 2022.

<p>Level of importance: Intermediate</p>	<p>Body and area concerned: IPARD Agency – administrative control</p>
<p>Finding number and title: 5. Non-compliance of Contract for allocation of funds with relevant procedures (ref 4.1.3. of final audit report for Q3)</p>	
<p>Project(s) concerned: ID no 20-02-1-0021 (Contract No. 09-908/20-8213/24), Measure 1</p>	
<p>Description of the finding: ICF requirement 3. (a)(ii) Rules for each type of procurement and grant calls ensuring appropriate legal framework for all such commitment processes.</p> <p>During administrative verification of recipient under application ID No. 20-02-1-0021(Contract ref. No. 09-908/20-8213/24), AA identified a non-compliance of the Contract signed between the recipient and the IA under the second public call for M1 with relevant procedures for processing requests for support. The IA announced the second public call for M1 when the version 2.0 of the Manual of procedures was in force. The IA processed the request for support of above-mentioned recipient in line with criteria and conditions defined in version 2.0 of the MoP, except Article 8 points 4,5 and 6 of the Contract for allocation of funds, which were contracted in line with the previous version of the procedures (1.2). The IA noticed the omission and signed an annex to the contract and thus corrected, but only Article 8 (4) of the contract, i.e. instead of the obligation of the recipient to gather and submit to the IA three</p>	

offers, according to v.2.0 it is the obligation of the recipient to publish the invitation of offers on the IA website in order to enable different suppliers to submit offers.

The AA noticed that Article 8(5) from the previous version of the manual remained in force, i.e. the obligation of the recipient to send the invitation for offers to potential suppliers and IA remained according to v.1.2 of procedures, while according to the valid version 2.0 the recipient should send the invitation only to IA. Also, Article 8(6), from the previous version of the manual, remained in force, i.e. the obligation of the recipient to be solely responsible for selection of the offer was omitted which is stated in the valid version 2.0.

Accordingly, the recipients are misled about contract obligations and thus they may inadvertently violate the procurement procedures.

Recommendation: The IA should check the Contracts for allocation of funds signed with recipients under the Second Public Call M1 for which the procurement procedure has not started yet and if it finds that the signed contracts contain the disputed points of Article 8, to correct it by signing an annex.

Auditee's response: Accepted

IA will check all signed contracts and make an Annex to the contract for recipients who have not conducted the procurement procedure.

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

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

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

Considering that AA issued final engagement report on 26th January 2022, AA will follow up and report about actions taken by the auditee within AAAR for FY 2022.

5.8.2 Non-operational transactions

5.8.2.1 Substantive testing of irregularities/debts

Findings:

AA didn't identify any deficiency related to irregularities/debts.

Assessment:

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

5.8.2.2 Substantive testing of advances

Findings:

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

Assessment:

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

5.8.2.3 Substantive testing of the IPARD Euro account

Findings:

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 rate²⁶) and, in case of statistical sampling method, the upper limit of the error rate as a result of the audits of operations, and the amount of irregular expenditure detected and the error rate resulting from the random sample audited.

The information is presented in section 5.7.

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

As presented in section 5.7 of this Report, total error rate is below materiality level. In addition, in accordance with the DG AGRI Guideline no 2 on the Audit Strategy, error evaluation is presented in Annex 2 "Substantive testing of operational transactions" as a part of this report.

5.11 Corrections relating to the current year implemented by the operating structure/management structure before submitting the final declaration of expenditure and financial statements to the Commission, and resulting from the audits of operations²⁷, including flat rate or extrapolated corrections.

There weren't any self-corrections during the FY 2021.

5.12 Residual total error rate²⁸ 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.

²⁶ As defined in Article 28(14) of Commission Delegated Regulation (EU) No 480/2014.

²⁷ This concerns both corrections on the audited sample units and corrections implemented as a result of the total error rate.

²⁸ Total errors minus corrections referred to in paragraph 5.11, divided by the total population.

During previous 2020 financial year IPARD Agency has reported four cases of irregularities through IMS system of which three have been closed, which was reported through AAAR for FY2020. One case stayed opened and that case is included in table below. During FY 2021 IPARD Agency has processed and reported six cases of irregularities through IMS system. Two cases have financial impact while four cases are irregularities without financial impact. At the moment, each case is open. Details regarding these cases with relevant dates are presented in table below:

Application ID number	Detecting date of suspicion of irregularity	Institution which detected suspicion of irregularity	Date of Report for suspected /detected irregularity	Amount to be recovered		Date of decision on recovery of funds/return receipt	Date of recovery of funds	Case status
				EU part	National part			
18-01-1-0228	4 th March 2020 (Final report on Audit of Operations)	Audit Authority	17th September 2020	48.900€	16.300€	30 th September 2020/12 th October 2020	Not been recovered yet	Open
18-01-1-0114	14 th May 2020	IPARD Agency	15th July 2021	/	/	/	/	Open
18-01-1-0274	4 th March 2021	IPARD Agency	13th September 2021	/	/	/	/	Open
18-01-1-0097	29 th July 2020 (Final report on Audit of Operations)	Audit Authority	1st December 2021	9.573,92 €	3.191,31 €	10 th December 2021/15 th December 2021	28 th December 2021	Open ²⁹
18-01-1-0303	25 th December 2020 (Final report on Audit of Operations)	Audit Authority	12th January 2022³⁰	21.250,12 €	7.083,38 €	10 th December 2021/24 th January 2022	Not been recovered yet	Open
18-01-1-0242	15 th April 2021	IPARD Agency	12th January 2022³¹	/	/	/	/	Open

²⁹ The case has not yet been closed due to technical problems with the IMS.

³⁰ After technical corrections and processing between AFCOS and IA, case has been reported into IMS in 2022.

³¹ After technical corrections and processing between AFCOS and IA, case has been reported into IMS in 2022.

19-02-3-0015	6 th October 2021	IPARD Agency	16 th January 2022 ³²	/	/	/	/	Open
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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.

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 has been processed. As the recipient has not returned the funds, the debt from this project (application ID 18-01-1-0303) has been deducted from the approved funds through mentioned payment request through measure 3. AA emphasize that recovery from this recipient relates to the FY 2022 (deduction performed in March 2022) and thus information provided couldn't be presented within AMD for FY 2021 as well as AA will cover by audit and present in AAR for FY 2022.

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

This information is presented in section 5.8, for each finding separately. There were one finding with financial impact in amount of 631,76€ and IA didn't take corrective actions yet.

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.

³² After technical corrections and processing between AFCOS and IA, case has been reported into IMS in 2022.

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

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

AA emphasises that out of 10 transaction tested within substantive testing, only one transaction contains financial error which indicates proper functioning of controls.

Number of payments declared to the EC during FY 2021 (only 48 final payments) shows a decrease in comparison with the FY 2020 (161 final payments) and that, despite a larger number of published public calls which don't present adequate effectiveness of the management and control system. The AA encourage operating structure to perform a root cause analysis in order to identify reasons for such a decrease and to find an adequate solution to increase overall efficiency and effectiveness for implementing IPARD Programme and to strengthen publicity measures in order to attract interesting parties to apply for IPARD measures.

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

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

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

List of AA team members involved in audit of annual accounts

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant/ certified auditor	Type of audit work carried out by the body/person
			General	IPARD			
AA	Rina Mučaj Demirović	Head of Department for audit of the program of agricultural and rural	8 years and 9 months	7 years and 9 months	P	Certified auditor/ State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report

		<i>development</i>					
	<i>Marko Tomčić</i>	<i>Senior Auditor</i>	<i>3 years and 11 months</i>	<i>3 years and 11 months</i>	<i>P</i>	<i>Certified auditor/ State auditor</i>	<i>Audit of financial statements/reports – annual accounts, Reconciliation</i>
	<i>Luka Miranović</i>	<i>Junior Auditor</i>	<i>10 months</i>	<i>10 months</i>	<i>P</i>	<i>N/A</i>	<i>Review of AMD</i>

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

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

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

The audit of accounts focuses primarily on the information in the financial reports submitted by the NAO taking into consideration quarterly declarations of expenditure submitted to the European Commission for the financial year 2021 (in April, July, October 2021 and January 2022) as well as accounting records and other information received from the NF and IPARD II Agency.

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

- a) Form D2 - the revenues and the expenditure of the IPARD II programme, showing Union, national and total revenues and expenditure summarised by measures and presented on an annual basis;
- b) Table of differences by IPARD II programme and measure - between the expenditure and the revenues declared in the annual accounts and that declared for the same period, accompanied by an explanation for every difference;
- c) Debtors' ledger - table of the amounts to be recovered at the end of the financial year (debtors ledger);
- d) List of payments – list of all payments made in the financial year;
- e) Balance sheet;
- f) Income statement;
- g) Cashflow statement.

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

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

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

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

Based on the above mentioned, the AA concluded that the annual accounts (financial reports and statements) submitted to the European Commission for financial year 2021 are complete, accurate and veracious in all material aspects, and have been prepared in accordance with the requirements, except issues identified and presented in finding below.

Findings:

1) Deficiencies in the filling out form „List of all payments” for financial year 2021

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: Minor

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

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

According to Article 45(d) of the Sectoral Agreement, annual financial reports and statement referred to in Article 59(2)(a) of the FWA shall include, among others, a list of all payments made in the financial year in line with Annex 9 to this Agreement.

During verification of completeness, accuracy and veracity of the annual financial reports and statements for financial year 2021 which were submitted on 15th February to the Commission, AA identified technical error within annex List of all payments (MS excel (xls.) format).

Namely, the column of the mentioned annex related to the payments from the IPARD Euro account - EU funds (column No.7) shows the incorrect total amount. An error occurred due to usage of the formula "SUM" in the way that the total amount includes also the number of column (7), so the total amount of paid EU funds from the IPARD Euro account is higher by 7,00 € and instead of the amount of 3.525.572,47 € this column shows amount of 3.525.579,47 €.

According to Addendum to Guideline No.5 on the annual accounts from 10th February 2022, the NAO/NF should submit MS excel (xls.) format of the mentioned document via SFC2014 system, which they did. NAO/NF also submitted a document in PDF format by e-mail to the Commission and that document contains correct total amount of column No.7 (3.525.572,47 €) which means these two documents have not been reconciled although the document in MS excel format should be a basis for the document in PDF file.

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

AA follow up status: Open

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

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

7. FOLLOW-UP OF PREVIOUS YEARS' AUDIT ACTIVITY

7.1 Information on the follow-up of outstanding audit recommendations and on the follow-up of results of systems audits and audits of transactions/operations (including the audits done in regard to the complementary sample) from earlier years

Within this section AA included all findings, presented in AAAR for FY 2018, 2019 and 2020 which are not closed during FY 2020³³. In addition, AA provides information on the state of play of the implementation of DG AGRI's findings/recommendations which are not closed during FY 2020 or earlier – such as related to entrustment of budget implementation tasks and/or procedural modifications as well as follow up of Action plans related to conditional entrustment of Measure 7, reservation issued with the AMD and n+4 rule.

Findings and recommendations from audits carried out by AA:

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

II 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

III 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

IV part - Findings and recommendations identified during audit of operational transactions from final reports issued on 3rd March 2021 – No. 3011-2-06-122 including relevant management response

V 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

VI 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.

VII 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.

³³ Findings considered as closed within FY 2020 or earlier are not part of this Report.

VIII 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
I part - Findings and recommendations identified during system audit from final report issued on 10th February 2021 – No.3011-1-06-88		
<p>1.</p> <p>Refer to System Audit Final report (10/02/2021)</p> <p>4.1.1</p>	<p>Inadequate recording and reporting of irregularities</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p> <p>ICF requirement 2. (c) IPA body should ensure that irregularities noted lower down in the organisation are reported appropriately and followed-up, including protection for "whistle-blowers".</p> <p>During compliance testing and review of IPARD Agency documentation, we have identified following deficiencies:</p> <ul style="list-style-type: none"> - Non-compliance of Manual of irregularity with Guidelines on irregularity management issued by AFCOS Office of Montenegro (hereinafter: Guidelines) - Irregularity register according to Manual of irregularity doesn't have all relevant columns which contains Irregularity register prescribed by Guidelines such as: <ul style="list-style-type: none"> o Date of the first information leading to suspicion of irregularity; o Source of first information; o Date of verifying Irregularity Alert Form; o Description of suspicion of irregularity; o Temporary measures for protection of financial interests; o Initiated procedure for irregularity identification; o Suspicion of fraud; o Established irregularity; 	<p>Partially closed</p> <p>The AA analyzed the updates within procedures for irregularities and considers that the procedures have been harmonized with Guidelines on irregularity management issued by AFCOS Office of Montenegro, but there are still some inconsistencies, such as deadline for reporting, meaning that according to the AFCOS guidelines as well as to Annex H to FWA, the AFCOS should be notified immediately after Conclusion on existence of irregularity, while according to the procedures quarterly. Besides that, some parts of the procedure state that IA must immediately inform AFCOS as soon as the administrative or judicial decision is ready. Accordingly, there are discrepancies within procedures.</p> <p>Besides above mentioned, the AA has identified major delays in the process of determining the existence or non-existence of irregularities, e.g. for the recipient with the application ID no. 18-01-1-0097, the AA in the draft report sent to the IA on 9th November 2020, pointed out that there was a suspicion of irregularity based on field control conducted on 29th July 2020. However, upon reviewing the documentation received from the IA, the AA noticed that Annex DP-01-01 Report on Suspicious / Detected Irregularities - Internal (Irregularity Warning Form) was prepared on 1st December 2021 (more than a year delay).</p> <p>Additionally, after communication with IA, the AA was informed that the IA uses two annexes DP-01-14 Register of indicators to register every suspicion on irregularity as well as DP-01-02 Irregularity register to register confirmed irregularities.</p>

	<ul style="list-style-type: none"> ○ Date of issuing Conclusion on established irregularity / non-existence of irregularity; ○ Report included in IMS system; ○ Reference number in IMS system; ○ Breached provisions of European Union law; ○ Conducted control through which irregularity was identified; ○ Description of irregularity; ○ Date of closing the case; ○ Institutions informed on the irregularity; ○ Remarks. <p>Therefore, beside the fact that IA doesn't use a prescribed version of Irregularity register, from current one we can't conclude for which case files IA received report on irregularity, i.e. the whole process which implies getting information of existence of suspicion of irregularity to closing the case and the relevant dates.</p> <p>- Non-completion of Irregularity alert form according to Guidelines - According to Guidelines Implementing agency immediately assessed truthfulness of received information on suspected irregularity. Depending on whether further investigation is needed, the Agency should fill in the envisaged space "further proceeding point A or B" in Irregularity Alert Form (Annex 1 of Guidelines). Instead the IPARD Agency uses their form prescribed by Manual of irregularity (Report on suspected/detected irregularities – DP-01-01) which is not aligned with prescribed annex from Guidelines, and which employee fulfils within three days after discovery of</p>	<p>The AA checked whether data for recipients for whom auditors have indicated that there are suspicions of irregularity are included in these Register, such as for recipients with application ID no 18-01-1-0020, 18-01-3-0004, 18-01-1-0303 (part related to solar panels), etc. The AA identified that no register includes information about these cases. This also means that neither the Annex DP 01-01 as well as Annex DP 01-03 Conclusion on established irregularity or non-existence of irregularity are prepared for such cases.</p> <p>Further, the AA considers that there is no necessity for Annex DP-01-14 Register of indicators, because Annex DP-01-02 Irregularity register which is aligned with the Guideline issued by AFCOS includes all steps in the process of determining the existence or non-existence of irregularity.</p>
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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

	<p>related to these cases and prevention of the occurrence of irregularities or fraud.</p> <ul style="list-style-type: none"> - Filling in the Table od deadlines – as it was outlined in point 6 of finding, we recommend IPARD Agency to fill in the Table od deadlines which would provide easier monitoring of cases and clear review of information flow. 	
<p>2.</p> <p>Refer to System Audit Final report (10/02/2021)</p> <p>4.2.1</p>	<p>Lack of procedures for recording and monitoring of changes IA</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Minor</p> <p>ICF requirement 2(d) – Identification and assessment of changes affecting the system of internal controls - Ensuring that management identifies and assesses important changes, both internal and external, that can affect the effectiveness of internal controls and have impact on the organization’s achievement of objectives.</p> <p>By analyzing the MoP of the IPARD Agency, the AA auditors have identified that the procedures do not define the obligation to register all changes of the system in one document, i.e. to prepare a register of changes. The IA prepares only the Annex Register of modifications that presents changes within the manual, but there is no record of other changes as: key staff, program, decree, organizational changes, etc. In order to monitor the occurred changes in the system, it is necessary to put them all in one document, which will be available to IA employees and to other interested parties</p> <p>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.</p>	<p>Partially Closed</p> <p>Within version 2.2 of the MoP the IA introduced a new annex Register of significant changes (DP-SAA-LA -05-04).</p> <p>By inside into the received Annex, the AA identified that it does not include information about changes in the procedures which occurred during FY 2021 (adoption of v.2.2 from April 2021 and v.2.3 from September 2021). Namely, the IA prepares the Annex DP-SAA-DM-01-08 Table of modifications that presents changes within the manual, i.e. compares two versions of the Mops, but does not provide the information when a particular version came into force. Hence, the AA considers that information related to entry into force of a particular version of the procedures shall be included in Annex Register of significant changes DP-SAA-LA -05-04.</p> <p>Besides that, received Annex does not include all changes in the EU and national legislation occurred during 2021, such as Amendment of the Sectoral Agreement from May 2021, Amendment of Financing Agreement from June 2021, etc.</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> <div style="text-align: center;">  <p>DP-SAA-LA -05-04 Register of Significa</p> </div>

<p>3.</p> <p>Refer to System Audit Final report (10/02/2021)</p> <p>4.3.1</p>	<p>Vaguely defined retention period</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Minor</p> <p>ICF requirement 3.(a) (xii) Archiving procedures ensuring that documents will be available for review throughout the required periods for which they must be kept</p> <p>The IPA II beneficiary shall retain for six years from the final date for operational implementation of a financing agreement, all documents relevant for the procurement and grant award procedures, contracts, addendum, relevant correspondence and all relevant documents relating to payments and recoveries. According to the Manual on office and archiving work of the IPARD Agency, the documentary material that is related to IPARD should be kept in the Archive for a minimum of 10 (ten) years in separate archive boxes and ordered by the year of their completion. Consequently, the retention period presented in the MoP is not clearly defined because it doesn't show from which point the period of 10 years shall be counted.</p> <p>The AA recommends to amend the procedures in order to harmonize the retention period with the requirements of FWA and SA.</p>	<p>Closed</p> <p>The IA amended the procedures in line with FWA and SA. Accordingly, the AA considers this finding as closed.</p>
<p>4.</p> <p>Refer to System Audit Final report (10/02/2021)</p> <p>4.4.1</p>	<p>Possible usage of the irrelevant Manual of Procedures version</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p> <p>ICF requirement 4. (a) Information to support functioning of internal controls ensuring that processes are in place at all levels to identify the information required and expected to support the functioning of the other components of internal control and the achievement of the organization's objectives</p> <p>During the review of documentation within IPARD Agency, we identified the risk of possible usage of the irrelevant Manual of Procedures version. Namely, IA changed</p>	<p>Closed</p> <p>By analyzing the submitted documents, AA considers that IA has prepared a solid basis so that employees know at all times which version of the manual should be used for which public call.</p> <p>In addition, during the 2021 audit, the AA found that there are minutes in the registries for each recipient confirming which version of the manual should be used for each of them. Accordingly, the AA considers this finding as closed.</p>

	<p>internal procedures several times in last few years. Due to the long duration of the contracting and payment process for submitted applications and publishing new public calls, employees could be confused about the usage of relevant procedures because there are not appropriate instructions for their use and thus there is a possibility of verifying application by using two or more MoP's versions in different phases. For example, first public calls for M1 and M3 were published in 2018 and version 1.1 of MoP was in force at contracting phase. For some of the contracts signed within first public call, payments have still been executing while version 2.1 of MoP is in force at the moment. Also, new public calls have been published in the meantime. Additionally, version 2.1 of MoP's relates to advanced payments for contracts signed under public call announced when the version 1.2 was in force. Constant improvement of procedures through new versions of MoP is necessary, but there should be an adequate and official information about entering into force of the new version of MoPs which would include information regarding which version is applied by specific department/part of organization or/and public call.</p> <p>IPARD Agency should officially inform all employees as well as external stakeholders about entering into force of the new version of the MoP's and establish register which should include precise information which version of MoP should be used for particular department and/or public call.</p>	<p>Given that there are frequent changes in procedures, which may lead to confusion of employees, in the future, AA will closely monitor the requirements presented within this finding</p>
<p>II part - Findings and recommendations identified during audit of operational transactions from final reports issued on 29th December 2020 – No.3011-2-06-409</p>		
<p>1. Refer to Audit of operations Final report (29/12/2020)</p>	<p>Incorrect data in the application and failure of controls</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Major</p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary,</p>	<p>Closed</p> <p>The IA prepared the Decision for recovery of funds No 321-1182/18 from 10/12/2021 and identified new debt in the Debtors ledger.</p> <p>Recipient recovered funds in amount EUR 12.759,47€ (EU part 9.569,60) on 28th December 2021, which is presented in the D1 for Q4 2021.</p>

<p>4.1.1</p>	<p>ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>During administrative and on the spot verification of recipient under application ID no 18-01-1-0097, we have identified several deficiencies, which are listed below: - Recipient received support for purchasing mechanisation (tractor and accompanying equipment) through fruit and vegetable sector within Measure 1. One of the specific eligibility criteria for this sector is to have minimum 0.5 ha of plantation area at the time of submitting the application. In the submitted request for support and business plan, it is stated that the recipient plants approximately 4,3 ha of potatoes and 2,45 ha of watermelon, i.e. cumulatively 6,75 ha of planted area. Business plan was assessed according to the procedures described in the MoP (v.1.1) as part of administrative check prior approval of the request for support and before on the spot check by IA employees. During on the spot control which was conducted on 07th of March 2020, controllers of the IA have measured 3,8 ha area planned for planting and accordingly the recipient fulfilled the eligibility condition of 0,5 ha of plantation area. The AA auditors carried out on the spot check on 29th of July 2020 and measured cumulatively 1,17 ha of planted area. By analysing results from on the spot check, we have identified that there are significant differences between the data presented in BP related to plantation area and the actual data established on the field by AA auditors. The discrepancy in measurement of area for plantation is presented in the table.</p> <p>Further analysis of BP and data obtained from the field leads into question the economic viability of the project/agricultural holding, which is one of the eligibility criteria. In addition to the significant difference between the stated area under planting and the planted area determined on the spot, we identified a shortcoming in the IA measurement of parcel no. 1376. Namely, in the OTSC report controllers of the IA stated that „although according to the List of real estate no. 180 the area of parcel no. 1376 is 0,54 ha, we have measured 1,71 ha“. There should be emphasized that list of Real estate administration presents a unique legal document issued in accordance with the Law on State Survey and Real Estate Cadastre, and as such contains most</p>	<p>Also, IA organized training for DOSC employees for the use of Geoportal of Real Estate Administration and use of obtained data during on the spot control.</p> <p>After analysing the situation and detail review of documentation, the AA considers this finding as closed.</p>
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precise information about land size. During on the spot controls IA can determine if nature of the land has changed and cannot increase legally determined land size.

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

Considering above mentioned deficiencies we recommend to IA to initiate procedure for recovery of funds from recipient in amount of 12.759,47€ (EU part 9.569,60 €), according to Article 50 of the SA, Article 34(11) of the Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme), as well as Article 5, point 12 (j) of the Contract. Additionally, we recommend the IA to organize additional trainings for DOSC employees for the use of Geoportal of Real Estate Administration and use of obtained data during on the spot control.

Auditor's final conclusion:

Considering auditee's response, clarifications and additional evidences provided, as well situation caused by COVID 19, AA recommends the IA to monitor recipient under application ID no 18-01-1-0097 in order to confirm usage of mechanisation and increased arable land size. Monitoring should be performed by on the spot control during agriculture season 2021, and if IA identify that recipient still not using mechanisation, IA should initiate recovery procedures. Finding could be considered reassessed to finding with protentional financial impact. The implementation of the recommendation will be further monitored.

<p>2.</p> <p>Refer to Audit of operations Final report (29/12/2020)</p> <p>4.1.2</p>	<p>Substantial change of the implementation conditions</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Major</p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>According to Article 8, point 12. of Contract for funds, the recipient shall not modify the project which modification results in: a change in ownership which gives to a firm an undue advantage; a cessation or reallocation of a productive activity outside the geographical area covered by the IPARD Programme; a substantial change of the investment affecting its nature, objectives or implementation conditions which would result in undermining its original objectives, for as long as this Contract it is in force. In addition, according article 8, point 17 the recipient is obliged to inform immediately the Directorate of occurrences of circumstances significant for execution of Contract. During the on-the-spot verification of recipient under application ID no 18-01-1-0020, we have concluded substantial change of investment affecting implementation conditions which undermine its original objectives. Namely, recipient received support for purchasing mechanisation through milk sector within Measure 1. One of the specific eligibility criteria for this sector is minimum 5 cows older than one year at the time of submitting the application. Recipient submitted documentation on 13.09.2018 as a proof for owning 7 cows but IPARD Agency (Department for on the spot control) during on the spot control on 18.04.2019 found 5 cows and one heifer at recipients agricultural holding. During AA on the spot control which is executed on 13.10.2020, there were 3 cows and one heifer. As a reason for decreasing a number of animal's recipient submitted veterinarian's confirmations for two missing cows. According to that documentation, one cow has died on 14.12.2019 and another one was forced slaughtered due to unprofitability on 22.08.2020. The recipient did not inform IA about</p>	<p>Remains open</p> <p>The finding remains open until the communication with DG AGRI on the Acceptance of accounts for FY 2020, pursuant to Article 48 and 49 of the SA, is completed.</p>
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	<p>these changes. On the other hand, recipient presented, through business plan, the production levels in the next five years which are growing progressively and according to the plan recipient should have 7 cows in 2020 and 11 cows in 2023. Considering that recipient currently has only 3 cows, there is significant impact on economic viability and original objectives of the project and recipient.</p> <p>The AA recommends IPARD Agency to perform on the spot control in line with article 5, point 15 of Contract in order to confirm all necessary facts, to present recipient contract obligation and to present to AA remedial action plan. If IA confirm that recipient is not in position to take corrective actions and that recipient significantly undermine original objectives, IA should initiate recovery of funds in line with article 5, point 12 (j) of the Contract. In addition, we recommend IA to communicate this and similar specific issues with the DG AGRI in order to obtain adequate clarifications about expected actions of IA in case of animal deaths and force slaughtering.</p> <p>Auditor's final conclusion:</p> <p>Considering specifics of the finding and obvious fact that there wasn't intention of recipient to circumvent eligibility criteria (death of the cow), AA concludes that failure, even though substantial and undermining original objectives, is not permanent. The IPARD Agency controllers conducted on the spot control on 19th May 2021. They determined that recipient owned five cows and thus recipient met the eligibility criteria. The IPARD Agency submitted to AA pictures and support documentation from on the spot control, as well as passports for cows which prove ownership. Also, the Audit Authority checked the base of the Administration for Food Safety, Veterinary and Phytosanitary Affairs and determined that the recipient owned five cows in line with the eligibility criteria. After presented analysis, AA considers that there is no financial impact of error presented.</p>	
3.	<p>Discrepancy of SA and Contract for allocation of funds with FWA</p> <p>Body/-ies concerned: IPARD Agency</p>	Closed

<p>Refer to Audit of operations Final report (29/12/2020)</p> <p>4.1.3</p>	<p>Level of priority: Intermediate</p> <p>ICF requirement 3. (a)(iv): Publicity rules and procedures ensuring that the legislative requirements are fulfilled</p> <p>According to Article 23(2) of the FWA, the IPA II beneficiary shall publish the name and locality of the recipient, the amount awarded and the nature and purpose of the awarded contract. On the other hand, according to Annex 8 of the Sectoral agreement and Article 5(9) of the Contract for allocation of funds, the Directorate for Payments has the right to publish on the web site of DP/MARD the following information on the Recipients:</p> <ul style="list-style-type: none"> a) recipient name (only of legal entities; no natural persons shall be named), b) operation name, c) operation summary, etc. <p>According to DG AGRI Clarification letter on the publication of the list of the operations and recipients Ref Ares (2019)3898631 from 19/06/2019, the Sectoral agreement complements the FWA and in case of conflict between the SA and FWA, the provisions of the FWA shall prevail, i.e. the rule of the SA that only names of legal persons shall be published is considered as a discrepancy in which the Article 23(2) of the FWA prevails.</p> <p>Besides that, according to the same Article of the FWA, the operating structures shall ensure that the recipient is informed that it will be included in the published list of recipients.</p> <p>During administrative verification, we have identified that the IA published on the web site of the IA/MARD recipients names within the document List of operations and recipients, which is not in line with signed contracts and it was done without prior notification to the recipient.</p> <p>In order to avoid any lawsuit by recipients (natural persons) we recommend signing amendments of contracts with all natural persons that received support, which will allow IA to publish their names as well as inform recipients about this requirement. In</p>	<p>During audit of operations and compliance testing in FY 2021, the AA determined that for contracts signed after AA's final report, IA applied new version of the contract (in line with Exception approved by NAO). Besides that, annexes to the contracts were signed for all active recipients.</p> <p>In version 2.2 of the MoP, the IA updated the Annex Contract on the allocation of funds, Article 5(9) and 11(3), in order to comply with FWA and DG AGRI requirements related to publicity rules.</p>
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	<p>addition, we recommend updating of Annex Contract on the allocation of funds, in order to comply with FWA and DG AGRI requirements.</p>	
<p>4.</p> <p>Refer to Audit of operations Final report (29/12/2020)</p> <p>4.1.4</p>	<p>Deficiency of assessment of economic viability of recipient</p> <p>Body/-ies concerned: IA Level of priority: Intermediate</p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>According to Article 11, point 2(b) of Sectoral Agreement, administrative verifications on applications for support shall ensure the compliance of the operation with applicable obligations established by the Agreements, including those of other obligatory standards and requirements. The verifications shall in particular include verification of the eligibility criteria set out in the IPARD II programme, commitments and other obligations of the operation for which support is requested. According to IPARD II Programme eligibility criteria, point 8.1.6.3. Economic viability, the recipient must confirm the economic viability of the holding, in accordance with the form of the business plan. During documentation review through audit of operations, we identified deficiency of administrative verification of business plan after on the spot control. Namely, difference between information provided in the business plan (source of income, production capacity, etc.) and information provided in the on the spot control report, which can affect economic viability of recipient, are not considered by DPAP (Department for publicity and authorisation of projects). DPAP check quality and reliability of business plan before on the spot control, but after on the spot control there is no further assessment of accuracy of information provided in the business plan and comparison with information provided in OTSC report.</p> <p>IPARD Agency (DPAP) should improve procedures in order to adequately check economic viability of recipient taking into account information from OTSC report,</p>	<p>Closed</p> <p>Since the IPARD Agency added questions related to compliance between business plan and information from OTSC report to prove economic viability of recipient, the AA considers this finding as closed.</p> <p>In the future work, the AA will closely monitor the assessment of economic viability of recipients</p>

	particularly in situation of difference between business plan and information obtained during on the spot control.	
<p>5.</p> <p>Refer to Audit of operations Final report (29/12/2020)</p> <p>4.1.5</p>	<p>Cancelation of Invitation for offers(tender)</p> <p>Body/-ies concerned: IA Level of priority: Intermediate</p> <p>ICF requirement 3. (a) (ii) Rules for each type of procurement and grant calls ensuring appropriate legal framework for all such commitment processes</p> <p>According to MoP of Department of publication and authorisation of projects, recipient is obliged to submit at least three offers from the independent suppliers for the investments related to Measure 1 and 3. In order to make sure that transparency of the procedure is respected, the recipient is obliged to fulfil the Annex DP-DPAP-00-29 “Invitation for the offers/quotations” and to send it to the potential suppliers. After receiving offers, recipient chooses lowest one and tender procedure can be considered as closed. Considering procurement best practices, tender could not be cancelled without appropriate explanation and supporting documents in order to secure transparency of the process and avoid protentional manipulations. During documentation review through audit of operations, we identified that many Invitation for offers (tenders) are cancelled without appropriate explanation and supporting documents. Namely, some recipients have announced two or three Invitation for offers with same content, i.e. they announced new Invitation for offers without adequate explanation why previous Invitation for offers was cancelled. In addition, there is no further analysis by IPARD Agency about reasons for cancelling of invitation for offers. IA has communication with recipients by phone calls or emails related to cancelled tenders, and according one of communication presented recipient has told that Invitation for offers was cancelled because offers from three suppliers did not differ significantly, which cannot be acceptable as adequate reason.</p>	<p>Closed</p> <p>While conducting audits in FY 2021, AA determined that employees of IA use and fulfill check list related to Invitations for submission of offers in order to better check the reasons for repeating the announcement of invitations. Consequently, the AA considers this finding as closed.</p>

	<p>IPARD Agency should adequately check reasons for cancelation of Invitation for offers, so recipients can't cancel tender without adequate explanation in order to secure transparency of the process and avoid potential tender manipulations.</p>	
<p>6.</p> <p>Refer to Audit of operations Final report (29/12/2020)</p> <p>4.1.6</p>	<p>Inadequate monitoring of fulfilment of eligibility requirements</p> <p>Body/-ies concerned: IA Level of priority: Intermediate</p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>According to Article 13 of the Sectoral Agreement, on-the-spot verifications shall verify that the operation has been applied for and implemented in accordance with the applicable rules and shall cover all the eligibility criteria, commitments and other obligations relating to the conditions for the granting of support, which can be checked at the time of the visit. They shall ensure that the operation is eligible. According to Mop (v.1.1) in case there is a request from DPAP and/or DAP for the additional control of minimum required criteria, the control will be performed. During administrative check, the AA auditors identified that DOSC controllers conducted two on the spot controls, one before approval of support and the other before payment. During the first on the spot control, the controllers checked the eligibility criteria (number of animals, plantation area, etc.) while during the second on the spot control, i.e. before payment control, the controllers checked only whether the expenditure items referred to in the invoices and delivery note were present on-the-spot and their compliance with the eligibility criteria. By analyzing reports from on the spot controls before approval, we identified that for some recipient, facts that confirm the minimum eligibility requirements for support were not ascertained, for example, instead of planted area the DOSC controllers found only arable land, or in some other cases there were changes resulting in nonfulfilling of minimum eligibility requirements for</p>	<p>Closed</p> <p>Taking into account that IA added question related to fulfillment of minimum criteria before payment, the AA considers this finding as closed.</p> <p>However, in the future work, the AA fill closely monitor the fulfillment of requirements presented within this finding.</p>

	<p>example decreasing number of animals under eligibility limits which could be determined by insight in animal register. In such cases, in order to determine the eligibility of the recipient, it is necessary to confirm the facts presented in the request for support during on the spot control before payment.</p> <p>For all facts not confirmed by the first on the spot control, or cases where doubt/risk of fulfilling eligibility requirements exist, the AA recommends further coordination between DAP and DOSC controllers in order to improve flow of information necessary to ascertain all relevant facts related to eligibility requirements during the on the spot control before payments.</p>	
<p>7.</p> <p>Refer to Audit of operations Final report (29/12/2020)</p> <p>4.1.7</p>	<p>Deficiency of evaluating items before payment execution</p> <p>Body/-ies concerned: IA Level of priority: Intermediate</p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>According to Article 11, point 3(d) of Sectoral Agreement, Administrative verifications on payment requests shall include a verification of the reasonableness of the costs claimed, which shall be evaluated using a suitable evaluation system, and the payments made. During documentation review through audit of operations, we identified discrepancy of evaluation system for reasonableness of costs used by IPARD Agency in case of receiving three offers with different brand of item than primarily contracted. Taking into account that recipient announce invitation for offers, after signature of contract with IA, which contain just technical specification of the</p>	<p>Closed</p> <p>IA improved procedures by adding a question related to issues presented in the finding. Consequently, the AA considers this finding as closed.</p>

	<p>items not brand name, recipient could purchase item with different brand name than contracted one. In this case IA accept cost as reasonable using just one evaluation system (three offer rule), but regularly and in other cases IA accept cost as reasonable using two evaluation systems (reference price database or evaluation committee before contract as well as three offer rules before payment) which should be aligned. For example, one recipient has signed contract with IPARD Agency for purchasing of tractor in line with submitted applications which contain specific brand name and adequate technical specification of tractor. Before signing of contract, IA evaluated a price/cost using reference price database or evaluation committee for this specific brand name of tractor. After tendering procedure, in some cases, recipient is obliged to choose another brand name of tractor with same technical specification which price/cost is not evaluated during contracting process neither through reference price database nor evaluation committee.</p> <p>IPARD Agency should establish procedure of evaluating prices/costs of investment before payment to the recipient in situations when item's brand is different from contracting to payment process, using reference price database or evaluation committee.</p>	
<p>III part - Findings and recommendations identified during audit of operational transactions from final reports issued on 10th February 2021 – No. 3011-2-06-87</p>		
<p>1.</p> <p>Refer to Audit of operations Final report (10/02/2021)</p> <p>4.1.1</p>	<p>Expenditures incurred before grant agreement between IA and recipient</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Major</p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p>	<p>Closed</p> <p>The IA prepared the Decision for recovery of funds No 321-1325/18-65 from 10/12/2021 and identified new debt in the Debtors ledger. Considering the Sectoral Agreement (article 50, point3), the NAO has a deadline of two years from the date of registration in the debtor's ledger to recover funds to the EC and NAO should take appropriate actions in order to recover funds.</p>

According to Art.33(3) of the SA, Art.9 of the Decree and Art.5 of the First public call for measure 1, expenditures incurred before the conclusion of the agreement between the IA and the recipient are not eligible, except for general costs. During administrative and on the spot verification of recipient under application ID no 18-01-1-0303, we have identified that recipient submitted payment request which contain expenditures incurred before the conclusion of the agreement between the IA and the recipient which are not eligible for co-financing. Namely, the recipient has submitted Request for support on 15th May, 2018 for investment: 'Creating conditions for expanding production, harmonization with EU standards and strengthening the competitiveness of the vineyard' and applied for solar panels, construction of roads and retaining walls, purchase of mechanisation, well drilling and installations and construction of irrigation system. The IA conducted on the spot control2 before contracting on May 30th, 2019 and after confirming the facts presented in the request for support, signed the contract with the recipient on July 3rd, 2019. After signing the contract with the IA, the recipient published invitation for offers and received 4 offers for irrigation system from the following companies: [REDACTED] LLC, [REDACTED] LLC, [REDACTED] LLC and [REDACTED] LLC. The recipient had chosen the lowest offer from [REDACTED] LLC and signed contract on September 2nd, 2019. According to the procedures, after finishing the investment, the recipient submitted Request for payments on July 20th, 2020, which was approved and paid by the IA. As supporting document to the Request for payments, the recipient has submitted the Invoice from March 9th, 2020 and Report on completed work for irrigation system from Jun 15th, 2020. During audit we have determined that the investment was realized in accordance with applicable rules (Sectoral Agreement, Decree, Contract, etc.), except the part related to well drilling. During on the spot verification, the AA auditors noticed that some parts of the installations around the well were with accentuated visible traces of rust, which leads to suspicion that the well was drilled and installed much earlier than reported. Thereafter, the AA auditors approached the market research and found a video on the website of one of the bidders [REDACTED] LLC, which shows the process of drilling a well on the recipient's parcel, at the location presented within approved and paid payment request. The video upload date is

Considering the fact that IA initiated all necessary steps at its disposal in order to return the funds, this recommendation is considered **as closed**.

	<p>February 11th, 2018 which indicate that recipient submitted payment request which contain expenditures incurred before the conclusion of the agreement between the IA and the recipient, performed by a company that is not contracted one, which are not eligible for co-financing.</p> <p>Considering above mentioned deficiencies we recommend the IA to initiate recovery of funds related to well drilling and relevant well installations in amount of 28.333,50€ (EU part 21.250,12€ and national part 7.083,38€), in line with article 5, point 12 (a) of the Contract.</p>	
<p>2.</p> <p>Refer to Audit of operations Final report (10/02/2021)</p> <p>4.1.2</p>	<p>Unequal approach of the evaluation committee</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Major</p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>According to Art. 29 of the Decree, Verification of the reality and reasonableness of prices presented in the Request for support, shall be performed on the basis of:</p> <ol style="list-style-type: none"> 1) reference price database and or 2) comparisons of different offers; and or 3) evaluations of the evaluation committee. <p>During administrative verification of recipient under application ID no 18-01-1-0303, we have identified unequal approach in the work of the evaluation committee (hereinafter EC) related to the verification of reasonableness of prices. Namely, among other items, the recipient has applied for construction of a photovoltaic system (solar panels) and submitted an offer from company ██████████ LLC . The IA</p>	<p>Remains open</p> <p>The AA analyzed the additional actions of the IPARD Agency and assessed the submitted opinions of the Evaluation committee and the winning company "BB Solar" and as a conclusion, the AA's recommendation remains the same.</p> <p>Therefore, in line with Article 5, point 6 (f) of the Contract, the AA recommends the IPARD Agency to initiate recovery of funds related to construction of photovoltaic system in amount of 2.802,98€ which presents total public contribution out of which 2.102,24€ is EU part and 700,74€ national part.</p>

requested EC's opinion on the reality of [REDACTED] 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 [REDACTED] 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 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 [REDACTED] 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

	<p>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.</p>	
<p>3.</p> <p>Refer to Audit of operations Final report (10/02/2021)</p> <p>4.1.3</p>	<p>Inadequate audit trail</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p> <p>ICF requirements: 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 3. (a)(xii) Archiving procedures ensuring that documents will be available for review throughout the required periods for which they must be kept</p>	<p>Closed</p> <p>Based on result of compliance testing related to the FY 2021 and after communication with the employees of the IA, the AA considers that they are aware of the essence of this finding. Accordingly, the AA considers this finding as closed.</p> <p>However, since finding is such that it must be respected in continuity, in the future work, the AA will carefully follow if there is consistency in documentation, as well as whether necessary steps have been taken in cases of disagreement of the advisers in charge of the case.</p>

During administrative verification of recipient under application with ID no 18-01-1-0114, the AA auditors have identified several shortcomings:

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

- o the request for support is acceptable,
- o no irregularities were found during on the spot control,
- o the on the spot control report is in accordance with the case data and satisfactory.

Consequently, the request for payment is eligible for co-financing. However, even IA assessed request for payment eligible for co-financing, IA sent to the recipient rejection letter on July 31st, 2020 with different arguments for rejection, out of which one is related to irregularity identified during on the spot control. There is no adequate audit trail how IA decided to reject request for payment when all controls performed by IA, presented to AA, shows that request for payment is eligible for co-financing. After recipient appeal on rejection letter, IA in the final Decision for payment, from August 10th 2020, stated that the request for payment is partially approved, i.e. that only part of the request is rejected. There is no adequate audit trail of how the payment request was initially rejected in its entirety and then how IA finally decided to reject it in part.

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

	<p>of the Head of the DAP. According to the MoP, after finishing all procedures of processing the request, the form "Payment request" shall be stamped with the IPARD stamp "PAID" on the label of the folder and in the first page of the request and then the whole case file Head of DAP shall forward in DP archive for archiving in a period of 7 years from the final payment in line with article 44 SA. There is no adequate audit trail on corrections of the case file, authorisation of correctness as well as accessibility to the closed case files.</p> <p>The AA recommend sto the IA to ensure an adequate audit trail of the decision-making process on acceptance/rejection of the requests. IA should ensure consistency by ensuring adequate audit trail of every step in the decision-making process. For example, if there is rejection letter to recipient, the rejected letter should be supported by adequate control results i.e. how IA decided to reject request. If, during processing of case file, IA decide to change decision, there should be adequate audit trail on changes from rejection to partial approval as result of additional control supported by relevant documents. In case that there is a disagreement between the employees in charge of a certain case file (Advisor I, II, Head of Sector, etc.), we recommend the IA to convene a collegium and to record the conclusions of the collegium in the minutes which will include information that one of employees don't agree with the decision, and that collegium decided about rejection/approval. In addition, after archiving the payment request, i.e. after final payment, IA should ensure that the documentation is available for review only in accordance with the archiving procedures and the Sectoral agreement. If, in exceptional cases, working files should be changed, there should be adequate audit trail about, who, when and by which authorisation accessed and corrected files.</p>	
<p>4. Refer to Audit of operations</p>	<p>Weakness in on the spot verifications</p> <p>Body/-ies concerned: IA Level of priority: Intermediate</p>	<p>Closed</p> <p>The DOSC organized training related to the topic presented in this finding. Besides that, in version 2.3 of the MoP, in instructions for</p>

<p>Final report (10/02/2021)</p> <p>4.1.4</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>On the spot verifications are defined within Art. 12,13 and 15 of the Sectoral Agreement, as well as in Art. 30 and 31 of the Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme). According to these articles, on the spot control is carried out in order to establish the factual situation on the ground in relation to the data and evidence specified in the request for support/request for payment. Control team shall take measurements and photos of all existing capacities which are relevant or related to the planned investment and that were stated in the application/business plan, as well as measurements and photos of realized investment. During administrative and on the spot verification of recipients under application ID no 18-01-1-0114 and ID no 18-01-1- 0303, we have identified weaknesses in performed on the spot controls. Namely, for recipient under application ID no 18-1-1-0114, part of the investment was related to the renovation of the existing irrigation system. During fieldwork before contracting, the controllers did not check in detail and document by photos the existing irrigation system, location, parts of the system, location of planned investment, etc. After receiving the Request for payment, the controllers conducted on the spot check control of finished investment, where they identified that the contracted irrigation system was built in 2018, i.e. before submitting the request for support. On the other hand, in case of recipient under application ID no 18-01-1-0303, part of investment was related to well drilling and installations and construction of irrigation system. During on the spot control before contracting, the controllers took picture of the location where the recipient planned to drill the well. During the second on the spot control before payment, the IA determined that the well had been drilled, equipment installed and irrigation system built, but did not document by photos the location where the submersible pump and supporting equipment is neither compared location of realization of investment with the location presented by recipient before contracting. Part of submitted Request for payment related to well drilling and irrigation system</p>	<p>fulfilling check lists, special attention is required by employees when the investment is related to well drilling and installation and construction of irrigation system. Accordingly, the AA considers this finding as closed.</p> <p>However, whereas this is a finding of such a nature that it must be respected in continuity, in the future work, the AA will pay special attention to it. Additionally, the AA recommends the IA to continue to organize trainings related to topics for on the spot control, especially for newcomers.</p>
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	<p>was approved in total by the IA. During AA administrative and on the spot verification, the auditors identified that the well was sod and installed in 2018, i.e. before submitting the request for support and at a different location than the one marked by the IA controllers before contracting.</p> <p>The AA recommends the DOSC to check every fact stated in the request for support and every part of realized investment that can be checked at the time of the visit and to document it by photos. Also, we recommend the DOSC controllers to save the GPS coordinates where the investment in immovable items is planned, i.e. the place where drilling of wells, construction of a facility, etc. is planned and to include saved coordinates in on the spot check report. This information should be used during on the spot control before payment in order to allow controllers to compare location presented by recipient and real location of realization of investment</p>	
<p>5.</p> <p>Refer to Audit of operations Final report (10/02/2021)</p> <p>4.1.5</p>	<p>Failure in notification about performed hidden works</p> <p>Body/-ies concerned: IA Level of priority: Intermediate</p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>According to Article 51(1) of FWA “the IPA II beneficiary entrusted with budget implementation tasks of IPA II assistance shall prevent, detect and correct irregularities and fraud when executing those tasks. To this end, the IPA II beneficiary shall carry out, in accordance with the principle of proportionality, ex ante and ex post controls including, on-the-spot checks on representative and/or risk-based samples of transactions, to ensure that the actions financed from the budget are effectively carried out and are implemented correctly.”</p>	<p>Partially Closed</p> <p>The AA analyzed the procedures of the IA related to hidden works (version 2.2 and 2.3). In the Manuals for DPAP and DOSC, it is stated 'In case of hidden works according to the Contract recipient is obliged to inform DPAP at least one-week prior starting the realization of the activities involving hidden works. ' After receiving this information, DPAP shall send request to DOSC for additional on-the-spot control. In Annex 20 Contract for allocation of funds, article 8 (11) it is stated that 'The Recipient is obliged to inform by letter or telephone or mail the Directorate for the timeframe for performing the hidden works during mounting of equipment which cannot be controlled during on-the-spot control before payment. '</p> <p>Accordingly, recipients that sign contracts with IA are not informed about the obligation to inform the DPAP at least one week prior starting the realisation of hidden works, i.e. in the contract it is stated that they are obliged to inform the DPAP, but not within what timeframe.</p>

	<p>n line with abovementioned, Article 8 (11) of Contract for allocation of funds states: "The Recipient is obliged to inform by letter or telephone or mail the Directorate for the timeframe for performing the hidden works during mounting of equipment which can not be controlled during on-the-spot control before payment. " During administrative and on the spot verification of recipient under application ID no 18-01-1-0303, certain hidden works were identified. However, after performed on the spot control and review of case files which includes checklist and other supporting documentation, we can conclude that recipient did not inform the IPARD Agency about performed hidden works in accordance with Art. 8 (11) of Contract for allocation of funds. Due to nature of hidden works, for example well drilling, IA could not perform measurement after realization of investment. Instead, recipient should inform IA of time of performance of hidden works in order to allow on the spot controllers to perform adequate measurement. By insight in on the spot control check list related to same recipient we identified that more than 30 % of the items couldn't be checked during on the spot control before payment, which present high risk for potential manipulation, which is not acceptable.</p> <p>The AA recommends the IA to initiate necessary steps in order to ensure compliance with the provisions of the FWA and Contract for allocation of funds and to prevent possible misuse and manipulation of IPARD funds. Recipients should inform IA about hidden works, particularly when such works could not be confirmed by third party documents.</p>	<p>Besides that, by analyzing the procedures, the AA noticed that they explain the rules in case of hidden works during mounting of equipment and devices that cannot be controlled during on the spot control before payment. When it comes to hidden construction, there are no defined procedures. According to Exception which was approved by NAO on 9th September 2019, hidden construction shall be controlled from the construction books. However, although the IA continues to monitor hidden works on the basis of the construction books in accordance with the adopted exemption from procedures, this exception applied only to all contracts signed under versions 1.1 and 1.2 of the manual and is not relevant for other versions of the MoP.</p> <p>As a result, the AA recommends the IA to harmonize the procedures, as well as to update them in order to prescribe necessary steps to monitor all hidden works that cannot be controlled during on the spot check before payment.</p> <p>In addition to analyzing procedures, the AA checked the work of the IA regarding hidden works. The AA would like to emphasize that with all recipients which were subject to audit during FY 2021 (such as recipients with application ID no. 18-01-1-0322, 18-01-3-0004, 20-02-1-0021, etc.) auditors found relevant evidence for hidden works (photos and videos), both for construction and equipment, which proves that IA has accepted our recommendation and is working accordingly</p>
<p>IV part - Findings and recommendations identified during audit of operational transactions from final reports issued on 3rd March 2021 – No. 3011-2-06-122</p>		
<p>1. Refer to Audit of operations</p>	<p>Deficiencies in the work of Evaluation Committee</p> <p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p>	<p>Closed</p> <p>According to the new Rulebook which was approved in April 2021, a new department for technical and economic analysis is formed in order to monitor the work of evaluation committee and the reference</p>

<p>Final report (03/03/2021)</p> <p>4.1.1</p>	<p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>According to Art. 29 of the Decree, verification of the reality and reasonableness of costs presented in the Request for support, shall be performed on the basis of:</p> <ol style="list-style-type: none"> 1) reference price database and or 2) comparisons of different offers; and or 3) evaluations of the evaluation committee. <p>During administrative verification of recipient under application ID no 18-01-1-0344, we have identified deficiencies, as well as unequal approach in the work of the Committee for evaluation. Namely, among other items, the recipient has applied for installation of a thermoregulation system in greenhouses for mushroom production and submitted an offer from company ██████████ LLC. According to the procedures, the IA has requested the EvC's opinion on the reasonableness of ██████████ ██████████ LLC offer prices. In the submitted opinion it is stated that after detailed market research, the EvC determined that some prices from the offer (item no. 1.1, 1.2, 1.6, 5.14, 6.1 and 6.2) are not reasonable and attached the results of market research, i.e. the reasonable prices. However, based on the EvC offer analysis, the AA identified that the EvC did not calculate the variation of 5 % (for items over € 1.000,00 without VAT) or 15% (for items below € 1.000,00 without VAT) as defined by the EvC's procedure of work and in order to maintain the same approach to all applicants. Consequently, the prices proposed by the EvC as reasonable (without variation) were contracted and paid to the recipient, which means that the recipient's eligible costs for above mentioned items were calculated in a smaller amount than required for the value of the variation, i.e. for 1.447,14€ without VAT. On the other hand, for items 5.1 to 5.6, the cumulative offered price is 6.914,60 € without VAT, while the price obtained by market research is 5.339,30 €. In the explanation of the EvC it is stated that since</p>	<p>price data base. Accordingly, the control system has been improved and the AA considers this finding as closed.</p> <p>In the future work, the AA will continue to pay special attention to the assessment of the reasonableness of costs.</p>
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	<p>the offered price is for 1.29% higher than the market research price and that it also includes commissioning, the offered price can be accepted as reasonable. Having in mind that offer submitted from recipient includes commissioning and prices from market research doesn't, price can be accepted as reasonable, however the AA identified calculation error by EvC, more precisely the deviation is 29.5%, not 1.29% as EvC stated in report. There is a potential risk that the EvC, and thus the IA do not treat recipients equally and apply different approach while assessing the reality and reasonableness of costs, which consequently, may cause financial consequences for the recipient, disrupt the Agency's and IPARD reputation as well as affect the absorption rate of IPARD funds.</p> <p>The AA recommends the IA and the EvC to assess the reasonableness of costs with due diligence, following relevant procedures in order to maintain the same approach to all applicants.</p>	
<p>V part - Findings and recommendations identified during audit of accounts from final report issued on 4th March 2021 – No. 3011-3-06-123</p>		
<p>1.</p> <p>Refer to Audit of accounts Final report (04/03/2021)</p> <p>4.1.1</p>	<p>Shortcomings in compiling the Balance Sheet</p> <p>Body/-ies concerned: NAO/NF Level of priority: Intermediate</p> <p>ICF requirement 3. (a)(ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles; (a)(x) Reconciliation procedures ensuring that wherever required accounting balances are reconciled against third-party information.</p>	<p>Remains open</p> <p>After analyzing the received answer and communication with the NFD, the AA determined that the NFD continues to use SAP system for recording data and due to the limitations of the system itself, part of the recommendations related to accounts 115-1 (receivables from EC) as well as to 291-1 (liabilities to the EU contribution-long term prepayments-advance payments) could not be implemented.</p> <p>Also, as regards AA's recommendation related to negative values in the accounting reports, the SAP system itself shows the sign minus in the reports, meaning that amounts in the specific accounts are related to balance on the passive accounts. Since a new</p>

<p>Bearing in mind the above-mentioned requirements and generally accepted accounting practice, certain deficiencies were identified during the audit of Annual Accounts regarding the Balance Sheet:</p> <p>1) Amounts presented in the following accounts have been miscalculated:</p> <ul style="list-style-type: none"> - account 115-1 (receivables from EC) – according to Manual of procedures for Accounting IPARD 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€; 	<p>information system for recording data is under development and according to international accounting standards and practice, the AA recommends to remove minus from positive values on passive accounts in the new system in order to have a precise and accurate information about passive accounts.</p> <p>As regards account 115-7 (receivables for interest on debts), once again the AA emphasizes that recommendation does not relate to the Annual declaration of accounts or reporting requirements toward EC. Recommendation is related to the accounting system of the NFD and preparation of the balance sheet which is not aligned with the information on the balance sheet prepared by the IA (EU part).</p> <p>The AA received National authorities' questions and DG Agri reply document Ares (2022)695633 from 31st January 2022, and after analyzing the question and answer related to Recording of interest on debts by NFD, the AA considers that it relates to the D2 and not to the AA's recommendation, i.e. to accounting system of the NFD.</p>
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- 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.	
<p>2.</p> <p>Refer to Audit of accounts Final report (04/03/2021)</p> <p>4.1.2</p>	<p>2 Deficiency in the filling out the form D2-Annual declaration of accounts for financial year 2020</p> <p>Body/-ies concerned: NAO/NF Level of priority: Intermediate</p> <p>According to Article 45 of the Sectoral Agreement, the Annual Accounts, among others, should include “the revenues and the expenditure of the IPARD II programme, showing Union, national and total revenues and expenditure summarized by measures and presented on an annual basis and submitted using Form D2 as set out in Annex 6 to this Agreement”.</p> <p>Given the fact that the Annual Declaration including supporting tables, presents a crucial document of the Annual Accounts, it is necessary to pay special attention when filling out each prescribed form.</p> <p>AA identified that the form D2-Annual declaration of accounts for financial year 2020 contain following deficiency:</p> <ul style="list-style-type: none"> - In the column „European Union part that has been declared to the Commission in quarterly payment applications for the financial year 2020 in EUR“ amounts regarding measures „Investments in physical assets of agricultural holdings” and „Investments in physical assets concerning processing and marketing of agricultural and fishery products“ present gross amount of EU part of declared expenditure made in the financial year which is not aligned with the Guideline 5 for Annual Account. According to the Guideline – Chapter 2.4.2. Annual declaration table, instead of gross there should be net amount of EU part of declared expenditures. Consequently, in Form D2 – annual declaration of accounts for financial year 2020 should stand 3.113.361,77€ instead of 3.113.678,21€ for measure „Investments in physical assets of agricultural holdings” as well as 343.771,38€ instead of 	<p>Closed</p> <p>The AA considers this finding as closed since the Annual Declaration of accounts for FY 2021 is prepared following relevant templates and guidelines.</p>

	<p>344.080,75€ for measure „Investments in physical assets concerning processing and marketing of agricultural and fishery products “. Finally, the total amount of D2 should be 3.457.133,15€ instead of 3.457.758,96€.</p> <p>The AA recommends preparing annual accounts with due diligence, following relevant templates and guidelines issued by EC.</p>	
<p>VI part - Findings and recommendations identified during system audit from final report issued on 26th December 2019 – No 3011-1-06-418.</p>		
<p>1. Refer to System Audit Final report (26/12/2019) 4.2.5</p>	<p>Body/-ies concerned: IPARD Agency Level of priority: Major</p> <p>ICF requirement 3. (a) Selection and development of control activities - ensuring that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organization.</p> <p>During review of contract within application ID no 18-01-1-0343 we identified following:</p> <p>1. According to the Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme) 16/16, 4/18, 11/18, Article 12 - Beneficiaries of Measure 1, when submitting application, shall also submit proof of ownership of the land or facility where the investment is made or of a land use right, for a period of at least seven years from the date of submission of the application. Furthermore, eligibility condition for olive growing sector is at least 0.5 ha under olive plantations. The lease agreement for olive plantations, between recipient and lessor was signed on 14.05.2018 for a period of 24 months. At the same time, an Annex to the contract was submitted, stating that the lease of agricultural land relates to a period of 7 years. Annex to the contract was notarized on 16.05.2019. – a year after submitting request for support, without any request from IA, which indicate that this document is submitted to the case file by circumventing of internal procedure and there is no sufficient audit trail about receiving this document.</p>	<p>Closed</p> <p>The IA conducted ex post control on October 2021. According to the OTSC report, the investment is still existing, it is in use according to the intended purpose and there were no changes according to the investment.</p> <p>As regards assessment of economic viability in cases of specific projects, according to the new Rulebook, new department for technical and economic analysis is established. Since the new department is responsible for verification of the reasonableness of prices and for economic analysis of projects, the AA considers that conditions have been created for better realization and monitoring of economic and technical tasks related to the approval of requests for support.</p> <p>Additionally, according to the procedures, in case of need for specific opinion related to the implementation of the investment in line with relevant legislation and if there is need for specific expertise related to the investment the IA can request these opinions from the Evaluation committee.</p> <p>The AA considers this finding as closed.</p>

2. According to the IPARD Programme, Decree on the implementation and procedure for the use of funds from the IPA (IPARD II Programme) 16/16, 4/18, 11/18, Article 15 and Public call - Funding support for the implementation of Measure 1 may be granted for investments with a total value of eligible costs from € 10.000 to € 500.000. The initial request for support was in amount of € 771.198,21 (excl. VAT). By insight into the request it is not clear for which part of the investment exactly the support is sought, but business plan (page 67) makes it clear what is planned to be realized through the first phase of the project: purchase of mechanization € 73.300,00, road - € 327.600,00, infrastructure - € 177.000,00, olive growing and maintenance - € 127.438,02 and maintenance of olive groves in year II € 65.860,19 – 5 items in the amount of € 771.198,21 which is in compliance with amount from initial request for support. Just two offers were submitted - one for seedlings (€ 0.55 per piece) in total amount of 15.719,00 € and the other for internal traffic in amount of 15.000,00 € /ha. By submitting additional documentation, i.e. new request for support and a new business plan - instead of the requested € 771.198,21, the amount of the investment is € 499.059,81 in line with a total value of eligible costs. Within new request for support it was significantly changed the construction of the investment in the following:

- mechanization is not requested;
- the offer for seedlings from the same company has increased significantly and instead of the old price of € 0.55 now the amount is 5-7 € per seedling, which increased the original offer by € 64.739,00;
- infrastructure (irrigation and fencing) is increased by € 85,190.00;
- new offer for the planting service of € 27,000 was also submitted;
- offer for the construction of a section of road (street no. 2 only) at a lower amount than originally planned - (both streets) for € 198,188.19.

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

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

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

At the same time, Article 3.2 defines: "Upon fulfilment of all mentioned requests, the parties shall sign the closure protocol."


IPARD Agency did not verified if the contract entered into force on the day of the submitting request for support from the beneficiaries and if recipient fulfil eligibility requirements related to the article 12 of Decree. Additionally, by review of documents related to the ownership of land under lease from the Directorate for real-estate, KO Vranovici, no. 384 and no. 357, we identified that there are some kind of the burden and restrictions on this land.

4. By analysing new business plan, we identified that the business parameters necessary to prove the viability of the investment are negative, i.e. Net Present Value of the project is negative in all years. Annex to the DPAP Manual (DPDPAP-00-04 Business Plan Assessment, part 2.1) clearly states that projects with a negative NPV should be rejected.

In addition, further analysis of business plan shows that, even eligibility condition for olive growing sector is at least 0.5 ha under olive plantations before submitting a request for support for which they have a lease contract, recipient didn't take into account these number of plants and related income, expenditures and other parameters, which could be a red flag for artificial conditions required for obtaining a support.

5. We identified the applicant's stated that the supported investment will be owned by the applicant prior to submitting the payment claim. IPARD Agency states in a letter addressed to the Managing Authority on 11.05.2018 that the investment will not be

	<p>owned by the beneficiary, because it is subject to a lease agreement and requested opinion on that issue. MA reply "There is a legal requirement in the IPARD regulatory framework which is applicable here: Article 31 (b) FwA – Investments projects under rural development programmes shall remain eligible for Union financing provided they do not, within five years from the final payment by the operating structure, undergo a substantial modification".</p> <p>The Decree, which elaborates and defines the conditions for obtaining support, clearly stipulates that the investment must be owned by the applicant at the time the payment claim is submitted.</p> <p>Opinion of the Managing Authority (which is not directly related to the issue) could not be the basis for the derogation of the provisions of the Decree and it is not clear how recipient can prove ownership during submission of request for payment.</p> <p>Taking into account auditee's response and the fact that there is no financial impact (recipient did not submit request for funds), AA consider that IA, after further analysis, accept risks identified in the findings. AA will take into account risks identified for sampling purpose in the following compliance audits.</p> <p>AA conclusion January 2021:</p> <p>Partially closed</p> <p>Considering auditee's response and the fact that recipient realized investment and submitted payment request as well as that IA executed payment during 2020, the part of the finding is not relevant. However, the IA was aware of risks presented in finding and acted accordingly. During compliance testing for FY 2020, AA used dual testing-purpose and this project wasn't randomly chosen within sample and consequently wasn't subject of compliance or/and substantive testing.</p> <p>The IA did not include in the new versions of the MoP the possibility for experts support for assessment of economic viability in cases of specific projects.</p>	
2.	<p>Body/-ies concerned: IPARD Agency</p> <p>Level of priority: Intermediate</p>	Partially closed

<p>Refer to System Audit Final report (26/12/2019)</p> <p>4.2.1</p>	<p>ICF requirement 3. (c) Policies and procedures related to control activities- ensuring that written policies and procedures exist establishing what is expected at all levels and specifying detailed actions.</p> <p>According to Article 11, point 2(f) of SA, the administrative verifications shall in particular include verification of the reasonableness of the costs proposed, which shall be evaluated using a suitable evaluation system, such as reference costs, standard unit costs, a comparison of different offers or an evaluation committee. Before signing a contract IA use two evaluation systems (reference price database or evaluation committee) in order to verify reasonableness of cost.</p> <p>During review of IPARD Agency documentation, related to administrative verification, we identified that the work of evaluation committee is not aligned with reference price database approach.</p> <p>Namely, the reference price database manual states that due to all deviations of the requested amount (price) from the reference price, between 5% and 30%, the reference price is accepted, while any item, whose deviation is above 30%, is rejected. But, evaluation committee has different approach and accepts any deviation above 5% (including above 30%) by adding 5% to the reference price. This approach is not equitable, because recipient who are looking for an item which is in the reference price database, that is 30% above the reference price is rejected, and in case when item is not listed in reference price database, but still 30% above, the evaluation committee accepts that item with a reduced amount.</p> <p>In addition, procedures for work of evaluation committee doesn't have defined precise steps and inputs for providing opinion about reasonableness of costs proposed.</p> <p>As a result, there is uneven approach of two comparable evaluation systems and that one recipient will get support, while another will not, depending of which evaluation system is used. This situation can make some of recipients in the privileged position.</p> <p>Having in mind that these two systems should be comparable with the unique aim of verification of the reasonableness of the costs proposed they should have been aligned in order to avoid putting some of recipients in the privileged position.</p>	<p>The IA and EVC started to prepare separate minutes for each public call and thus to define in more detail rules for work and allowed variations. In the future, this part of the recommendation will be checked through follow up of finding no 3. Deficiencies in the process for verification of reasonableness of costs presented in point 5.8.1. of this Report.</p> <p>As regards RPD and EVC, the AA still considers that these two systems for verification of reasonableness of prices put some recipients in a privileged position, which is presented in the document bellow:</p> <p> EvC vs. RPD.xlsx</p> <p>The implementation of the recommendation will be further monitored.</p>
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	<p>AA conclusion January 2021:</p> <p>Remains open</p> <p>Even though the Guideline for work of Evaluation Committee has been updated and some parts have been improved (for example the deadline for responding to the IA requests for opinion is defined), the approved Guideline does not present a detailed procedure for work of the EvC.</p> <p>During administrative verifications and from communication with the IA employees, the AA was informed that the EvC in its work uses the rules defined by the Minutes from the meeting No. 321-2687/18-1 from July 24th, 2018. The minutes defines in more details the allowed variations in prices and the manner of decision-making of the EvC and these steps are not included in the updated version of the Guideline for work of EvC.</p> <p>The AA recommends the IA to update the Guideline for work of the EvC in order to facilitate the DPAP employees to understand and monitor the procedure related to verification of the cost</p> <p>The implementation of the recommendation will be further monitored.</p>	
<p>3.</p> <p>Refer to System Audit Final report (26/12/2019)</p> <p>4.2.2</p>	<p>Body/-ies concerned: IPARD Agency</p> <p>Level of priority: Intermediate</p> <p>ICF requirement 3. (c) Policies and procedures related to control activities - ensuring that 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</p>	<p>Partially closed</p> <p>The AA considers that certain steps have been taken in order to accelerate the processing of applications, such as defining deadlines for opinions of the Evc and technical bodies, two new members of the Evaluation committee have been engaged, etc.</p> <p>However, given that the number of public calls is growing and that the WLA for 2022 shows the necessity of additional 6 employees in the DPAP, as well as that out of 16 employees, 6 employees have</p>

<p>unrespecting deadlines related to opinions of Agency for Environment Protection and the Directorate for Food Safety, Veterinary and Phytosanitary Affairs. 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 for Food Safety, Veterinary and Phytosanitary Affairs related to the recipient under application ID no 18-01-1-0125. <p>As a result, there are significant delays which negatively impact on different phases of contract implementation, like market changes, potential changes in regulation, willingness of recipient, changes or even cancelling the investment, de-commitment rates, etc.</p> <p>The AA recommends establishing realistic overall deadline for application processing in department for authorisation of commitments, taking into account that prescribed deadline for payments is 6 months in SA.</p>	<p>status of short-term staff, the AA considers that the risk of delays in the processing of applications is still significant.</p> <p>Besides that, the NAO approved an exception related to verification of reasonableness of costs, according to which the IA shall use only evaluation committee mechanism in assessment of reasonableness of prices exclusively for applications received during the Third public call for M1. Considering the deadline for issuing opinions (two months), as well as the fact that the EVC is the only mechanism for verification prices for all applications from public calls for measures 3 and 7 whose processing is in progress, and now for third public call for measure 1 as well, the AA considers that it will additionally affect the duration of application processing.</p>
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	<p>In addition, we recommend following:</p> <ul style="list-style-type: none"> • Establishing deadline for opinion from evaluation committee, maximum 1 month from receiving a request from IA, taking into account that deadline for technical bodies is 15 days. • Enhance working communication and procedures with technical bodies in order to respect prescribed deadlines defined in Memorandum of understanding. <p>The AA strongly believes that every part of the process should have established realistic deadline in order to make a positive pressure to all parts in the system with the aim of increasing of efficiency of the overall process related to the approval of the IPARD projects. Increasing efficiency will positively impact on overall IPARD reputation in Montenegro as well as on potential de-commitment rates.</p> <p>AA conclusion January 2021: Partially closed</p> <p>Even though the IA in its response stated that it is not possible to establish realistic overall deadline for application processing in Department for authorization of commitments, by analysing the submitted documents, the AA identified that certain steps had been taken in order to ensure proper and timely processing of application:</p> <ul style="list-style-type: none"> - deadline for submitting opinions from the EvC is defined (max 2 months), - deadline for submitting opinions from technical bodies is defined (30 days), - no new members of the Evaluation committee have been engaged. <p>However, even though AA identified moderate progress regarding application processing, there is still a high risk on possible de-commitment due to small number of contracts signed and implemented.</p> <p>Taking into consideration above mentioned, the AA considers this finding partially closed.</p>	
4.	<p>Body/-ies concerned: Managing Authority Level of priority: Intermediate</p>	<p>Partially closed</p>

<p>Refer to System Audit Final report (26/12/2019)</p> <p>4.6.3</p>	<p>ICF requirement 4 (a) Information to support functioning of internal controls – ensuring that processes are in place at all levels to identify the information required and expected to support the functioning of the other components of internal control and the achievement of the organization’s objectives</p> <p>According to the SA, Article 8, Functions and responsibilities of the Managing Authority, paragraph 2) b) MA is responsible for the selection of measures under each call for applications under the IPARD II Programme and their timing, the eligibility conditions and the financial allocation per measure, per call. The decision shall be made in agreement with the IPARD Agency.</p> <p>During the audit we identified absence of written procedures concerning this responsibility of MA, i.e. it is not defined in which way they fulfil mentioned obligation. Furthermore, we identified that during public calls in 2018 the MA did not take over responsibilities prescribed in the article above. Namely, the MA was not responsible for the selection of measures, their timing, the eligibility conditions and the financial allocation per measure. According to documents reviewed, the MA just provided comments on the content of public call to IA which performed all mentioned tasks.</p> <p>The AA recommends developing written procedures related to selection of measures under each call for applications under the IPARD II Programme and their timing, the eligibility conditions and the financial allocation per measure, per call, in order to ensure fulfilment of required responsibilities of MA.</p> <p>AA conclusion January 2021:</p> <p>Partially closed</p> <p>By analysing the submitted answer and documents, the AA identified that the MA updated the procedures for announcing public calls. According to the new procedures, coordination between MA and IA is enhanced regarding the selection of measures and their timing, which results in preparation of Plan of publishing IPARD public calls.</p>	<p>The MA plans to update written procedures in order to better reflect the requirements from the SA. Until then, finding remains partially closed.</p> <p>The AA highlights that there should be adequate communication regarding the plan for announcement of public calls as well as the content of the public calls themselves.</p>
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	<p>However, SA clearly define that “MA is responsible for the selection of measures under each call for applications under the IPARD II Programme and their timing, the eligibility conditions and the financial allocation per measure, per call. The decision shall be made in agreement with the IPARD Agency” which is not reflected in new procedures.</p>	
<p>VII part - Findings and recommendations identified during audit of operational transactions from final reports issued on 4th March 2020 – No 3011-2-06-113.</p>		
<p>1. Refer to Audit of operation Final report (04/03/2020) 4.1.3</p>	<p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p> <p>ICF requirement 3. (a)(iv) Publicity rules and procedures ensuring that the legislative requirements are fulfilled.</p> <p>According to Annex 8 of the Sectoral Agreement, the operating structure and the recipients shall take the steps necessary to provide information to, and communicate with, the public on operations supported by an IPARD II programme.</p> <p>During performed on-the-spot controls we found out that the visibility rules, related to co-financing the investment by the European Union, have not been fully respected. Namely, 4 out of 8 recipients which were subject of audit of operation did not fully respect visibility requirements prescribed in contract. Not publicizing or incorrect publicizing is a result of insufficient control and lack of information to the recipients on the manner and place where such visibility material should be placed and on their quality.</p> <p>Agency should initiate taking of actions for remedying the established situation for the purpose of proper highlight, fully informing on, and publicizing the IPARD Programme, EU contribution as well as visibility and transparency of aid.</p> <p>In order to establish more efficient control over visibility requirements we recommend changing procedure in a way that recipient should fulfil mentioned requirements after signing the contract, or more precisely within time of submitting payment request. By signing the contract, the recipient has assumed the obligation and responsibility to</p>	<p>Remains open</p> <p>The AA identified that the IA did not update the procedures in line with Guidance on the responsibilities of recipients concerning information and communication toward the public Ares (2020)2698488 from May 25th, 2020.</p> <p>According to received Guidance, the phrase “During implementation of an operation/project” which is explained in Annex 8 of the SA means 'during the period in which the recipient carries out the supported activity/project. The recipient will have to display publicity, readily visible to the public, from the moment he/she starts the physical works on the project or from the delivery of equipment. '</p> <p>Besides that, according to Guidance ' The financial support from the European Union to be disclosed shall be the amount indicated in the signed contract between the IPARD Agency and the recipient. It is recommended to be complemented by the national public support and the private contribution, so that also the total project costs are visible.</p>

	<p>comply with the requirements. One of the requirements is to label the investment, regardless of the risk of part or the entire project being rejected.</p> <p>AA conclusion January 2021:</p> <p>Remains open 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.</p>	
<p>VIII Part - Findings and recommendations identified during system audit final report issued on 21st January 2019 – No. 3011-1-06-389/3</p>		
<p>1.</p> <p>Refer to System Audit Final report (21/01/2019)</p> <p>4.10.2</p>	<p>Body/-ies concerned: IPARD Agency Level of priority: Major</p> <p>SA – Article 11. 2) (f) prescribes that the reasonableness of the costs proposed, shall be evaluated using a suitable evaluation system, such as reference costs, standard unit costs, a comparison of different offers or an evaluation committee</p> <p>An EU-funded project should be based on prices that are the lowest available for the required project specification or be clearly the economically most advantageous offer. In other words, costs can be considered reasonable when they are not higher than the best price that normally a recipient should be able to find in the market, applying due diligence, for projects having certain specifications.</p>	<p>Closed</p> <p>Regarding Invitation for offers, procedures have been updated in version 1.2 and the limitation to the maximum price has been removed.</p> <p>Besides that, the IA updated the procedures regarding announcing invitations on the official IA website. The recipient is obliged to conduct procurement procedure by announcing the invitation for offers on official web page of IPARD II – Directorate for payments, which gives opportunity to different suppliers to submit offer that meet minimal technical requirements. The procedures are updated and explained in Mop for DPAP and DAP version 2.0.</p>

Manual of Procedures for DPAP prescribes rules for evaluation of reasonableness of costs. Analyzing available documentation and based on conducted interview, we concluded that the system for evaluation of reasonableness of the cost were not aligned and appropriate. In addition, procurement procedures are not developed through concrete, clearly defined rules.

Namely, the system is designed in a way that the reasonableness of the costs proposed in offer submitted by recipient, is evaluated through two systems. For items that include mechanization and equipment for Measure 1: First – Reference price database for all items for which this database contains data, **before contracting**; Second - Three offers from the independent suppliers **before payment**. In case of the items related to the construction for measure 1 and 3, and for all items for the measure 3 the two systems for controlling reasonableness of the costs proposed in offers were: First - is **used before contracting** - the evaluation committee provided professional opinion regarding prices and quantities. Second - is **used before payment** where the recipient submitted at least three offers from the independent suppliers for all investments for the measure 1 and for measure 3, according to the Contract signed with the DP. As result we have a situation that the contract signed between DP and recipient is a maximum amount of support which recipient can get, and that this amount is controlled just through one evaluation system, such as reference price database or evaluation committee. Second evaluation system is not used for checking reasonableness of costs, but if there is lower price than one stated in the contract. This is also confirmed by the annex "Invitation for the offers/quotations „where DP impacts on market by limiting maximum price on the contracted one. Furthermore, finding related to the reliability of reference price database no. 4.10.1 shows that this system **does not provide reliable price**.

For example, in the practice this means that recipient through public call for measure 1 submitted offer for particular item in May 2018, and reasonableness of that offer is controlled through first evaluation system with prices fixed in February 2018 (cut of date for a database). A result we have maximum amount for the contract which will be signed during first quarter of 2019. After signing of contract and providing funds for realization, recipient is obliged to conduct procurement procedures and get at least

Additionally, the IA updated the procedures (v.2.3.) regarding to checking prices in the reference price database or evaluation committee in case that recipient purchases brand of machinery/equipment that is different from the contracted brand.

AA considers that with the updated procedures, recipients are no longer limited to procurement up to the contracted amount, neither to the contracted brand, which reduces the impact of the time difference between the cut-off date for the database and date when IA conducts procurement procedures as second evaluation. AA considers this finding as closed.

three offers from different suppliers which are expected to be done in second semester of 2019.

Bearing in mind above mentioned there are several deficiencies in the system:

1. The contract amount is based on unreliable assessment system using just one system for evaluation of the reasonableness of costs.
2. DP influences on market with annex "Invitation for the offers/quotations" by limiting price to unreliable contracted one, which could lead to the risk that there will not be any supplier for providing goods/service and works for that price. In such case recipient cannot implement investment even though he/she would accept difference to be paid in total by personal sources.
3. Beside the fact that second evaluation system is used just for checking if there is a lower price than a contracted one, there is significantly different time frame of conducting these two systems. According to the example, first evaluation is conducted based on prices from February 2018 (minus 2 years – sources for database) and second evaluation is conducted in the mid-2019, 18 – 36 months after first one which could cause big differences in prices and problems in work of DPAP and DAP.
4. After procurement procedure, in which recipient defines technical specification of the item (without specifying a model and type of the item), recipient can find out that the item (model and type) with the lowest price is different than one checked in the reference price data base and stated in the contract.

Also, DPAP procedures briefly prescribe announcing of all invitation of offers on the official website of DP. By the insight into documents and during interview with employees from DPAP, we identified that there are no detailed procedures and steps for implementation of this idea, how they plan to treat received offers, who is responsible for particular step, what is allowed by employees, communication with recipients etc. Furthermore, if there is no adequate software solution which will disable review of received offers before prescribed deadline for offers within, there is a high risk of possible conflict of interest or corruption activities by employee dealing with received offers.

The AA recommends the following:

- Aligning procedures for evaluation of reasonableness of costs in order to get economically most advantageous price/costs;
- The aim of evaluation of the reasonableness of the costs is to provide support based on best/lower price, but the system should allow recipient to pay higher price from personal sources if there is need for such cases (supplier price and paid price could be higher than contracted one, but difference covered from personal sources without support). In that sense, we recommend removing limitation of maximum price in the invitation for offers;
- Developing detailed and concise procedures for announcing an invitation of offers on official DP website. Procedure should include responsibilities of employees for each step, concrete actions and communications with the recipient.

Auditor's final conclusion: Related to the reliability of RPD, as we mentioned in the finding 4.10.1, comparability of the prices cannot be assured if you compare prices from the same supplier.

These two evaluation systems are not harmonized based on the fact that RPD contains items per model and type, but procurement procedures contain technical specification of items, and there is possibility that recipient according to the procurement procedure will purchase item which was not a subject of control from RPD. In addition, as we mentioned in finding, in this case purpose of the second evaluation system is not to assess reasonableness of costs, but to check if there is a lower price than a contracted one.

When it comes to the limitation of amount defined in the invitation for offers and comparability with the national rules, in the national rules there is no RPD and budget predicted for tender is much higher than the lowest price on the market, i.e. it is based on assumptions and projections.


If in theory IPARD Agency doesn't accept AA recommendation related to the removing limitation of maximum price there will be no any changes in the RPD, because the fact that all following invoices and prices will be limited by the current

	<p>one, which is not reasonable/real market price. In addition, there is a risk that there will not be any supplier for providing contracted items for that price, especially in cases where old model and type is not in production any more, but there is another type and model with the same technical specification with higher price. In such cases recipient cannot implement investment even though he/she would accept difference to be paid in total by personal sources.</p> <p>Procedures submitted to the AA defines just one part of the procurement procedure, announcement of invitation of the offers, but more important part, receiving the offers and possible complication in case of difference of information received by recipient and IPARD Agency, is not defined (number of offers, name of suppliers etc.).</p> <p>The implementation of the recommendation will be monitored.</p> <p>AA conclusion January 2021:</p> <p>Partially closed Considering IA reply, AA identified that part of recommendation related to the limitation of invitation of offers is implemented and for another part IA modified procedures which are approved by DG AGRI. Considering that during audits related to FY 2020, AA identified several deficiencies related to the process of assessing reasonableness of the costs, AA will pay special attention to this process during audits related FY 2021.</p>	
<p>2.</p> <p>Refer to System Audit Final report (21/01/2019)</p>	<p>Body/-ies concerned: IPARD Agency Level of priority: Intermediate</p> <p>According to the Manual of procedures for work in the Reference price database it is prescribed:</p> <ul style="list-style-type: none"> o In order to determine the reference price, there must be a minimum of 3 comparable prices. 	<p>Partially Closed</p> <p>According to the new Rulebook, a new organisational unit under the Sector for Structural Support – Department for Technical and Economic Analysis was established. The new department is responsible for verification of the reasonableness of prices and for economic analysis of projects.</p>

<p>4.10.1</p>	<p>o The “Reference prices database” should contain data from the following sources:</p> <ul style="list-style-type: none"> • Submitted invoices from the IPARD Programme, MIDAS Project (grant scheme) or the other national measures for rural development • Prices (from invoices) will be entered after investment is finalized • Market research. <p>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.</p> <p>Furthermore, almost all the prices within RPD (for the same product, model and type) entered into the base are taken from one same supplier's invoices which leads to doubt in comparability of prices and to the fact that one supplier significantly influences the reference price. In addition, the reference price database has been filled just from one source, invoices from projects paid through IPARD like 1 and 1.2, and did not take into account market research. For example, for calculation of reference price for fertilizer there are seven invoices from the same supplier and reference price is calculated by average of prices from one source and one supplier. This result does not fulfil comparability criteria and influences on reliability of reference price.</p> <p>The AA recommends the following:</p> <ul style="list-style-type: none"> • 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 	<p>Also, the IA updated the procedures and in cases where the recipients, after procurement procedure receive offers with model and type different from the contracted ones, but with the same technical characteristics, before approval of the payment request, the IA employees shall check once again the RPD for exact model and type.</p> <p>Additionally, the IA started using other sources for RPD such as market research conducted by EvC. Currently, the RPD contains 924 verified prices with valid dates (766 are entered from Measure 1 The second Public Call, while 158 prices are entered from Market Research). At the moment, in the RPD there are 73 products with referent price.</p> <p>AA considers that a progress has been made regarding RPD, but it is necessary to further strengthen the base with new prices, from different sources. As a new department has been established, the AA expects a comprehensive market research from the employees of the department as well.</p> <p>AA considers this recommendation as partially closed and taking into consideration the importance of the issue, it will be in our focus in the upcoming audit work.</p>
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	<p>price database so the reference price for each entered product/item can be calculated and be more reliable</p> <p>Auditor's final conclusion: AA consider that assurance, related to the reliability of prices, presented by auditee is not adequate for the purpose of comparability of prices. Comparability is ensured when there are, at least two, but preferably three different sources/suppliers for calculation of the price and cannot be ensured if all prices are from the same supplier.</p> <p>According to the entrusted procedures and documents, Department for Publicity and Authorisation of Projects is responsible for conducting market research as a base for RPD. It is up to auditee how to organize fulfilment of prescribed obligation and to act according result of WLA and capacity needs for the purpose of market research.</p> <p>The fact that the RPD calculate reference price for exact model and type during contracting phase, can lead to the situation that recipient will not purchase that model and type, because in the transparent procurement procedure it is not allowed to precise model and type, but technical specification instead and supplier can provide different type and model with the same technical specification, which were not subject of control in RPD.</p> <p>The implementation of the recommendation will be monitored.</p> <p>AA conclusion January 2021:</p> <p>Remains open</p> <p>AA identified that currently RPD contains 842 valid prices out of which 42 were collected by market research. Even though IA started using market research as a source for RPD, the main issues identified in findings are still present.</p> <p>AA encourages IA to plan to establish new unit, within new Act of organisation of Ministry of Agriculture, which will among other thigs, be responsible for the market research and filing of RPD.</p>	
	<i>DG AGRI findings</i>	<i>Follow up</i>

Ipart - 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).

<p>Ares (2016) 5055192 dated 06/09/2016</p>	<p>3. Recommendation for the NAO DG AGRI status of recommendations</p>	<p>Partially closed</p>
<p>Ares (2017) 2326805 dated 05/05/2017</p>	<p>Situation as of the letter of findings and observations Annex of Ares (2016) 5055192 dated 06/09/2016</p> <p>For the same reason, since these parts of the IPARD Agency are being set up only now, DG AGRI considers that they need to be assessed by the external audit required to provide the opinion on the operating structure by point 1.7 of the Annex 3 to the SA. Therefore, the national authorities are requested to provide DG AGRI with the results of this external assessment which should in particular include extended tests on compliance of the accounting software and the compliance of the price reference database with the requirements of the FWA and the SA. As particularly regards the reference price database, among other verifications, the tests should provide a confirmation that the reference prices do not exceed the prices that a reasonably informed operator is able to find in the market. In case this condition is not satisfied, the external auditors should recommend the necessary actions. DG AGRI would also like to point out that, in case the reference prices in the database are also established on the basis of catalogues and producers'/dealers' price lists, due consideration is given to the customary discounts normally applied in the market.</p> <p>Such an assessment may be carried out by an audit firm or by the AA. In case the country decides to use the AA for this assessment, during the subsequent year the auditors carrying out this external audit cannot be involved (not even as reviewers) in the AA audits leading to the Annual Audit Activity Report and the related opinion.</p> <p>Situation as of the latest DG AGRI communication to Montenegro Annex of Ares (2017)2326805 dated 05/05/2017</p>	<p>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 <u>IPARD Agency on November 23, 2021</u></p> <div style="text-align: center;">  <p>IPARD_Final_Report .pdf</p> </div> <p>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.</p> <p>Besides that, the engaged audit company conducted an audit of the current state of implemented ISO 27001 controls, where they identified 19 findings. Accordingly, the AA recommends the IA to follow the road map proposed by the external audit company for the implementation of the given recommendations.</p> <p>Regarding number of employees in IT sector, according to the Rulebook 6 WP are systematised. Currently there are 3 employees</p>

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

(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

	bids is February 9, 2021 and signing of the contract is expected by the end of March.	
<p>Ares (2019) 7226447 dated 22/11/2019</p>	<p>DG AGRI status of recommendations</p> <p>Following the amendments in chapter 5.11 of DP-DAP-00, all offers for procurement of equipment for the recipients will be sent to the IPARD Agency, either by e-mail or by post. The Head of department (DAP) and two responsible advisors of the IPARD Agency will be involved in the procurement procedures of the recipients. Significant administrative work will be carried out in this respect. The proposed modification will increase the workload of the personnel. Given the fact that the IPARD agency is understaffed, this will create a risk of delays in implementation. It is recommended that the IPARD Agency fills in the existing vacancies by recruiting qualified staff. This is of significant importance also in view of the submitted request for entrustment for Measure 7.</p> <p>Audit Authority follow up</p> <p>Cut off 25.01.2020</p> <p>Remains open</p> <p>Taking into account that all current vacancies within sector for structural support are filled with LTEC or TEC, increasing number of employees envisaged for 2020 need changes in act of systematisation of Ministry of agriculture which is time consuming process and AA recommends immediate actions in this respect.</p> <p>According proposed procedures Head of department (DAP) has a main role and responsibility for managing the offers received by email which could significantly increase workload of this particular position, which cannot be mitigated by employment of additional 15 employees planned for 2020.</p> <p>Cut off January 2021</p>	<p>Partially closed</p> <p>In accordance with the Rulebook on internal organization and systematization of the Ministry of Agriculture, Forestry and Water Management from April 2021 new Department for technical and economic analyses (DTEA) is established, which is among other things in charge of conducting the procurement procedure.</p> <p>According to the Rulebook, 4 working posts are envisaged for this department and currently, 3 employees have LTEC and one TEC. Taking into consideration the extensive scope of work of DTEA, according to the WLA, 8 working posts are needed for this Department. In order to meet the needs of the DTEA, an additional two employees were taken over from other departments to work in this Department. These employees work only for DTEA, until the adoption of a new act on systematization. Accordingly, and taking into consideration that staffing capacity is of significant importance also in view of conditional entrustment for Measure 7, the AA recommends immediate actions related to adoption of the new Rulebook.</p> <p>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.</p>

	<p>Remains open</p> <p>Amended Rulebook on internal organization and systematization of the Ministry of Agriculture, Forestry and Water Management which implied establishment of new unit for procurement procedures has not been adopted yet. Therefore, this recommendation remains open.</p>	
<p>Ares (2019) 7226447 dated 22/11/2019</p>	<p>DG AGRI status of recommendations</p> <p>The IPARD Agency is recommended to give publicity of the modified method of submission of offers (e.g. via Internet, press, other media). Taking into consideration that currently the suppliers are contacted directly by the recipients, the proposed change may affect the number of offers collected.</p> <p>Audit Authority follow up</p> <p>Cut off 25.01.2020</p> <p>Remains open</p> <p>It is not clear does recipient or IA have responsibility or can inform potential supplier about tender. IA should develop clear instructions to recipient as well as suppliers in order to define process of submission of offers by supplier, decision making process by recipient as well as role of IA employees during opening of tender.</p> <p>Cut off January 2021</p> <p>Remains open</p> <p>Considering the IA reply, the process of improvement of procurement procedures which implies a clear definition of the responsibilities of all participants in the procurements process is still ongoing. Therefore, this recommendation remains open.</p>	<p>Closed</p> <p>The IA has prepared written instructions related to procurement procedure for recipients, as well as for potential suppliers. Instructions are posted on the official website of the IA.</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Priručnik za dobavljače.docx</p> </div> <div style="text-align: center;">  <p>Uputstvo za procedure nabavke-</p> </div> </div> <p>https://ipard.gov.me/Rubrike/Pozivi_za_dostavljanje_ponuda_IPARD_II_-_Te/</p> <p>Accordingly, the AA considers this finding as closed. However, considering that frequent changes in procedures occur, the AA suggests that the IA pay special attention to updating and posting the instructions in line with the changes.</p>

<p>Ares (2019) 7226447 dated 22/11/2019</p>	<p>DG AGRI status of recommendations</p> <p>The IPARD agency should update accordingly all related documents like checklists, templates of documents, call for applications, and agreements with recipients.</p> <p>Audit Authority follow up</p> <p>Cut off 25.01.2020</p> <p>Partially implemented</p> <p>Manual of procedures DP-DAP-00, point 5.5.2 defines that invitation for offers contains date for opening the offers, while DP-DPAP-00-29a and 29b doesn't contain such information. Furthermore, procedures don't prescribe responsibilities and steps regarding defining dates for opening the tenders.</p> <p>In addition, there should be precise description about email content (subject and reference to the tender, scan of original of offer and other details) in order to achieve efficient management of offers received by email.</p> <p>After further analysis AA recommends following modifications of annex "Invitation for the offers":</p> <ul style="list-style-type: none"> • Removing part "In addition to the quoted price, the evaluated price shall include all custom duties, import and any other taxes or fees applicable for goods imported in Montenegro which is not in accordance with article 33, point 3 of Sectoral Agreement which defines that such expenditures are not eligible for support. • Modification of the part "Price quotations will be evaluated for all the items together and contract awarded to the company offering the lower evaluated total cost of all the items" as well as part "The award will be made to the bidder offering the lowest evaluated price and that meets the required standards of technical and 	<p>Closed</p> <p>Since the new Department for technical and economic analysis has been established, procurement procedures are described in detail in Manual for DTEA, version 2.3. According to the MoP for DTEA, DP publishes the invitation for offer on the official website, where the date of offer opening, time and place will be determined.</p>
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	<p>financial capabilities” in order to include possibility prescribed in article 8, point 6 of annex “Contract for funds” by which recipient can choose other offer under particular circumstances.</p> <p>Cut off January 2021 Partially closed</p> <p>IA publishes dates for opening the offers on their official website. However, IA should update and align procedures in line with given recommendation. Considering the IA reply and review of DPAP and DAP MoPs version 2.0, it can be concluded that modifications of the aforementioned annexes (DP-DPAP -00-29a invitation for the offers/quotations for goods and DPDPAP-00-29b Invitation for the offers/quotations for works) haven’t been done yet.</p>	
<p>Follow up of the Action plan on the DG AGRI letter of closure with conditions and recommendations concerning the REBIT M7 (February 2022)</p>		
<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.1 Staffing situation – Operating structure</p> <p>During the analysis of the staff overview tables of the IPARD Agency and the Managing Authority, DG AGRI noted that there is a large number of vacant posts, as well as long-term leaves. This fact was also indicated in the National Authorising Officer’s (NAO) assessment of the operating effectiveness of the staff and in the NAO’s assessment on whether the operating structure satisfies the requirements for being entrusted. DG AGRI addressed a clarification request to the Montenegrin authorities on 6/12/2019 in relation to this point. Updated staff overview tables were submitted by the Montenegrin Authorities on 12/12/2019.</p> <p>According to the updated staff overview tables, the overall effective job occupation rate at the IPARD Agency was only 68%. Out of a total of 69 posts allocated to the IPARD Agency, 12 were vacant and 10 employees were on long-term leaves (maternity/pregnancy and sick leave). In the four most important departments, the situation is as follows:</p> <ul style="list-style-type: none"> • the department for publicity and authorisation of projects: occupation rate of 69 % (out of 16 posts, 5 employees are on long term leave); • the department for authorisation of payments: occupation rate of 67% (out of 12 posts, 1 is vacant and 3 employees are on long-term leave). DG AGRI noted that 	<p>Remains Open</p> <p>IA</p> <p>Rulebook In April 2021, a new Rulebook was adopted, according to which 76 work posts are systematized, which increased the number of positions within IA (7 more WP). According to the adopted Rulebook, the IA prepared Decisions and Job descriptions.</p> <p>WLA In July 2021, the IA prepared a new WLA, according to which the number of required work posts in IA was reduced from 84 (WLA from February 2021) to 80. AA considers that this reduction was not realistic and in line with the existing needs of IA for the efficient and effective IPARD implementation. However, the IA updated the WLA for 2022 and</p>

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.

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:

increased the necessary number of employees for IPARD implementation (89).

Due to the change in the number of necessary employees presented in WLA 2022 and as previously announced, a new rulebook for the IPARD implementation is expected to be adopted.

Current staff and Recruitment plan

In comparison with AAAR 2020, there was an increase in the number of employees from 72 to 74. The AA identified that there were efforts to employee new staff, however, oscillations in the number of employees during the year were noticed, which further confirms that an adequate retention policy is not being implemented. Based on the information from February 2022, number of LTEC remained the same (57), while the number of TEC raised from 15 to 17. 5 employees are on long-term leaves (maternity/pregnancy/sick leave).

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

According to Recruitment plan and adopted State budget for 2022, employment of 10 new employees has been predicted. Additional 2 officers shall be engaged through short term contracts in 2022. Meaning a total of 15 (including three positions for which the procedure for engagement has initiated in 2021) new employees in 2022.

On the other hand, in the period from October 2021 to January 2022, IA extended the TEC of a total of 12 employees until May /

<p>Payments to the recipients for measure 7 under IPARD II should not be carried out until DG AGRI has verified and acknowledged by official letter that:</p> <ul style="list-style-type: none"> - The vacant posts in the IPARD Agency, based on the latest update of 12 December 2019, are filled in to ensure sufficient human resources are available in the departments for authorisation of payments, the department for the on-the-spot controls and the department for execution of payments of the IPARD Agency. In addition, replacement staff with the necessary skills for employees on long-term leave in the department for publicity and authorisation of projects and the department for authorisation of payments should also be put in place. - The Managing Authority has presented a realistic planning for filling in their vacant posts. <p>DG AGRI will verify the corrective measures taken and acknowledge by official letter that the above conditions are lifted.</p> <p>AA Follow up February 2021</p> <p>Partially closed</p> <p>Based on the submitted documentation and evidences, AA has concluded that the IA has done an improvement in terms of employment and fulfilling vacant posts. Currently there are 72 employees within IA out of which 7 employees are on long-term leaves (maternity/pregnancy and sick leave).</p> <p>At the same time, adoption of the new act on organisation and systematisation is expected by the end of March which should increase a number of positions within IA in line with requirements and recommendations provided by DG AGRI and AA.</p> <p>When it comes to the MA, according WLA for 2021, MA needs 11 employees out of 17 positions envisaged. MA didn't fulfil any LTEC vacant post.</p>	<p>June 2022. Given that these employees are hired on a short-term contract until May/June 2022, the AA recommends the IA to pay attention to the actual increase in the total number of employees in FY 2022. Certainly, it is important to notice that the employment of 15 employees in 2022 is planned on long-term contracts, which will contribute to the stability of the working atmosphere.</p> <p>As regards trainings, training rate is lower than expected. However, due to pandemic Covid-19, the AA considers that IA employees attended a considerable number of trainings during the FY 2021, a total of 79. By analysing the training register, the AA noticed that the employees of the DOSC attended trainings related to well drilling, use of GPS device, etc.as recommended by the AA. However, the AA recommends continuous trainings, especially for new employees.</p> <p>MA</p> <p>Rulebook</p> <p>As regards the MA, according to the new Rulebook that was adopted in April 2021, the number of systematised working posts is 13 (4 WP less than envisaged in the previous Rulebook)</p> <p>WLA</p> <p>According to WLA for 2021 number of necessary employees in the MA was 11. By analysing the documents received in January 2022, the WLA for 2022 has shown that there is no need for further working posts.</p>
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		<p>Current staff and Recruitment plan</p> <p>In comparison with AAAR 2020, there was an increase in the number of employees from 9 to 11. There were no oscillations in the number of employees during the year. Based on the information from February 2022, number of LTEC is 9, while the number of TEC is 2. 1 employee is on long-term leaves (maternity leave).</p> <p>Ms Andrijana Rakočević was officially appointed on the position of Director General on February 2nd 2022. No new employment is planned for 2022.</p> <p>As regards trainings, according to the received training register, during FY 2021, employees of the MA attended a total of 11 trainings.</p> <p>Bearing in mind that the REBIT for Measure 9 was submitted to the EC in February 2022 and taking into consideration the role of the Managing Authority under the Technical assistance measure, the AA considers that the capacity of the MA shall be further strengthened by additional trainings.</p>
<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.2 Permanent Appointment of the Head of the IPARD Agency and the Head of the Managing Authority.</p> <p>DG AGRI was informed by the Montenegrin authorities on 28/11/2019 about the resignation of the previous Director of the IPARD Agency and the appointment of the Head of Department for authorisation of payments within the Directorate for Payments as acting Director of the IPARD Agency.</p> <p>DG AGRI also noted that the Head of the Managing Authority, was re-appointed on 18/07/2019 for only 6 months (new mandate of the Government of Montenegro).</p>	<p>Partially closed</p> <p>In September 2021, the Government of Montenegro appointed Mr Vladislav Bojovic to perform the function of Acting Director General of the Directorate for payments (IA) and Ms Andrijana Rakocevic as Acting Director General of the Directorate for Rural Development (MA).</p> <p>Ms Andrijana Rakočević was officially appointed on the position of Director General on February 2nd 2022.</p>

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). 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 February 2021

Partially closed

IA

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

MA

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




Decision on
appointment_AR.pdf

The AA recommends appointment of Head of IPARD Agency on permanent base.

	<p>It is important to emphasize that MA functions shall continue to properly contribute to business continuity in accordance with specific Substitution Plan in force. Respecting procedural provisions, General Director/ HoMA is substituted by the Head of Department for Monitoring, Evaluation and Reporting. This position is at the moment covered by Mr Enis Gjokaj. In case of absence of General director/ HoMA as well as Head of Department for Monitoring, Evaluation and Reporting, Head of MA function will be covered by Head of Department for Programming, Ms Irina Vukčević. Ministry of Agriculture, Forestry and Water Management is in the process of the preparation of the new draft Internal Rulebook on organisation and systematisation which will be platform for appointment of ne Head of Managing Authority.</p>	
<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.3 Permanent Appointment of the Head of the Audit Authority</p> <p>Since 2018, there is an acting Head of the Audit Authority in Montenegro. By NAO's letter dated 20/01/2020, DG AGRI was informed that the acting Head of the Audit Authority is officially appointed as Deputy Auditor General and will continue to carry out the function of acting Head of the Audit Authority. DG AGRI considers that an official appointment of the Head of the Audit Authority (Auditor General) should take place in accordance with Clause 5 (1) of Annex A of the Framework Agreement.</p> <p>Recommendation:</p> <p>The Montenegrin authorities should officially appoint a Head of the Audit Authority on a permanent/long term basis. This recommendation should be implemented as soon as possible.</p> <p>AA Follow up February 2021</p> <p>Official appointment of Head of Audit Authority, i.e. Auditor General has not been made since November 2018.</p>	<p>Remains open</p> <p>Official appointment of the Head of Audit Authority, i.e. Auditor General is still pending.</p>

<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.4 Staff Retention policy</p> <p>DG AGRI notes the efforts of the Montenegrin Authorities in relation to staff retention. For some of the employees (mainly in the IPARD Agency), the short-term contracts were transformed into long-term ones. Nevertheless, there is still a significant number of employees appointed on a short-term basis. This is the case for 15 out of the 57 recruitments in the IPARD Agency. A stable staff situation is crucial in the IPA environment.</p> <p>Recommendation:</p> <p>The Montenegrin authorities should ensure that there is an appropriate staff retention policy in place. They should take corrective actions as soon as possible to ensure that competent staff with the sufficient skills are recruited on permanent and/or long-term contracts. The Audit Authority should follow-up this issue in its Annual Audit Activity Report in the context of the acceptance of accounts for financial year 2020 and report on the outcome of the measures taken.</p> <p>AA Follow up February 2021</p> <p>Partially closed</p> <p>Decision on top up salaries is identified as successful motivation tool related to retention policy. However, due to the financial situation caused by COVID 19 outbreaks, top up salaries were not paid regularly during FY 2020, but started in FY 2021.</p>	<p>Partially closed</p> <p>Fluctuation in the number of employees during the FY 2021 prove that the retention policy is not adequate.</p> <p>As regards Decision on top up salaries, in FY 2021, the IA employees received the top ups only once. In addition, in the current Decision about top-up, the internal auditors dealing with IPARD are not included.</p> <p>The AA considers that the IA should take corrective actions as soon as possible to ensure adequate retention and motivation policy in order to prevent brain drain of competent staff with sufficient skills.</p>
<p>Ares (2020) 2004695 dated 09/04/2020</p>	<p>1.6 Information systems security</p> <p>According to the FWA and the SA, the information systems security standard applicable for the IPARD Agency is the current version of the ISO 27002:20131. For the purposes of point (b) of Section 3 of Annex B to the FWA, information systems security shall be based on the criteria laid down in a version applicable in the financial</p>	<p>Partially closed</p> <p>As regards Information system security, the AA in AAAR for FY 2018 recommended the IA that follow up of the remaining findings from the final report issued on 8/11/2016 should be performed by an external audit. Accordingly, the IA requested assessment of the information security and related activities, processes, procedures</p>

<p>year concerned of the International Standards Organisation 27002: Code of practice for Information Security controls (ISO) or equivalent.</p> <p>Recommendations:</p> <p>The IPARD Agency should ensure that the ISO 27002:2013 information systems security requirements are taken into account as referred to in the specific complementary provisions.</p> <p>The planned future IT developments should also take into account the relevant ISO 27002:2103 security requirements.</p> <p>The Audit Authority should assess within its Annual Audit Activity Report in the context of the acceptance of accounts for financial year 2020 the compliance of the IT security in the IPARD Agency with the requirements of Section 3 point (b) of Annex B to the FWA and point 3 of Annex 2 to the SA</p> <p>AA Follow up February 2021</p> <p>Partially closed</p> <p>Based on tests performed, AA concluded that IA maintains high information security standards and respects basic principles of ISO 27002 standards.</p> <p>On other hand, AA identified that there is an insufficient number of employees in this sector. The position of the Head of the IT sector is vacant and there are only two employees in sector out of which one is on temporary basis. Beside the head of department there are 4 vacant positions more which indicates that number of employees in the IT sector is critically limited. There is a high risk for continuation of operation as well as inadequate segregation of duties which would increase opportunities for unauthorized modification or misuse of information.</p> <p>The AA recommends fulfilling the position of Head of the IT sector as well as fulfilling the remaining vacant posts within this sector as soon as possible.</p>	<p>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 <u>IPARD Agency on November 23, 2021</u></p> <div style="text-align: center;">  <p>IPARD_Final_Report .pdf</p> </div> <p>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.</p> <p>Besides that, the engaged audit company conducted an audit of the current state of implemented ISO 27001 controls, where they identified 19 findings. Accordingly, the AA recommends the IA to follow the road map proposed by the external audit company for the implementation of the given recommendations.</p> <p>Regarding number of employees in IT sector, according to the Rulebook 6 WP are systematised. Currently there are 3 employees (2LTEC and 1TEC) The IA started the procedure for filling one working post for Advisor for IT and announcement was published on 29th December 2021.</p> <p>Besides that, for the position of Head of the IT sector, in December 2021 the Government of the MNE gave the approval for filling of this work post. Announcement for the same is published on 10th February 2022.</p>
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	<p>In addition, IA requested assessment of the information security and related activities, processes, procedures and documentations from external audit. Content of the public tender was announced on the MIDAS website on 26th January 2021. The deadline for submitting bids is February 9, 2021 and signing of the contract is expected till and of March 2021.</p>	
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Follow-up on Action Plan on NAO reservations from Annual Management Declaration process for the year 2020 for DG AGRI review and acceptance for the Programme for the development of agriculture and rural development in Montenegro under IPARD II 2014-2020			
Reservation issued/ Referent Programme	Description of the weakness determined	Mitigation measures determined	Status of fulfillment of action AA Follow up February 2022
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>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</p>	<p>Preparation and adoption of the Internal Rulebooks on organisation and systematisation of the line ministries and IPA institutions after approval provided by the NAO.</p>	<p>Conducted</p> <p>Rulebook on Internal Organisation and Systematisation of MAFWM is adopted in April 2021.</p> <p>Note: The Government of Montenegro, during the 34th session held on 30th July 2021, obliged the MAFWM to improve and deliver a new Rulebook on systematization in order to facilitate all shortcomings that arise from lack of adequate and necessary number of staffs for proper implementation of IPARD II. Additionally, according to the new WLA for FY 2022, necessary number of work posts is higher than the one that is systematized by the Rulebook.</p>
	<p>Upgrade of the referent IPA procedures in respect to Internal Organisation and HR policy.</p>	<p>Upgrade of the referent IPA procedures in respect to Internal Organisation and HR policy.</p>	<p>Conducted</p>

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

Reservation issued/ Referent Programme	Description of the weakness determined	Mitigation measures determined	Status of fulfillment of action AA Follow up February 2022
	<p>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 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</p>	<p>Preparation of the new IPA Job Descriptions and relevant HR documents for the IPA employees engaged within the IPARD structures on the basis of the adopted Internal Rulebooks.</p> <p>Preparation and adoption of the new Decision on the appointment of key IPA officials.</p>	<p>During FY 2021, the IPA procedures regarding implementation of Rural Development Programme have been upgraded on 12th April 2021 when version 2.2 (introduction of advances) came into force and on 30th September 2021 when version 2.3 (introduction of interim payments) came into force. The adopted Rulebook is reflected in the version 2.3 of the Manual.</p> <p>Conducted</p> <p>The IA prepared new Decisions, JDs as well as Declarations in line with new procedures and new Rulebook</p> <p>Remains open</p> <p>Draft Decision of appointment of persons responsible to carry out functions and responsibilities under indirect management of EU funds has been prepared by the national authorities and it covers all highly-ranked staff changes. It shall be submitted to the Government for approval.</p>

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

Reservation issued/ Referent Programme	Description of the weakness determined	Mitigation measures determined	Status of fulfillment of action AA Follow up February 2022
	<p>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 ensure that tasks and responsibilities are recognized by modalities proposed.</p>	<p>Adoption of the new versions of the Decree on IPA II, Implementing, Operational and Working Agreements for the IPA units under structures established. Adoption of the changes of the FAs in respect to changes of the institutional framework</p>	<p>Conducted</p> <p>Responsible authorities adopted new versions and amendments to relevant documents in order to continue the regular activities for the implementation of the IPARD II program:</p> <ul style="list-style-type: none"> - Amendment of Sectoral Agreement - May 2021; - Amendment of Financing Agreement - June 2021; - IPARD II Programme, version 1.3 – April 2021; - Amendment of the Decree on realization and procedure for implementation of funds from IPARD II – April 2021, June 2021, August 2021, November 2021; - Operational Agreement – January 2022; - Implementing Agreement – January 2022
		<p>Establishing practice and organising semi-annual Coordination meetings on IPA II chaired by NIPAC and NAO</p>	<p>Conducted</p> <p>During FY 2021, several meetings on the level of the IPA II perspective were held through online platforms: two Sectoral Monitoring Committees for IPA II programmes, IPA II Monitoring Committee, Coordination meeting with all key IPA actors, as well as the Seventh meeting of the IPARD II Monitoring committee.</p>

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

Reservation issued/ Referent Programme	Description of the weakness determined	Mitigation measures determined	Status of fulfillment of action AA Follow up February 2022
			Taking into consideration the carried-out mitigation measures, the AA considers this action as conducted. Since this is an issue of continuous character, the AA recommends to continue with organizing meetings in the upcoming period

When it comes to the follow up on AA recommendations, out of 26 recommendations issued during previous years, 15 are implemented, 7 partially implemented and 4 remain open.

As regards DG AGRI's recommendations, there were 4 recommendations in total, out of which, 2 are closed and 2 are partially closed.

As regards entrustment of Measure 7 and relevant recommendations within letters Ares (2020) 2004695 from 09/04/2020 as well as Ares (2020) 4146723 from 06/08/2020, the AA performed audit on follow up on all outstanding recommendations and out of 5 corrective measures envisaged within the Action plan, according to AA assessment, 4 can be considered as partially closed, while one recommendation remains open.

As regards Reservation issued with AMD, the AA considers that new systematisations did not lead to any substantial change of the structure and number of employees in IPARD bodies, and that the reservation issued relates more to the other IPA policy areas and bodies. Namely, the structure and work posts of the DMS remained the same, while in IA more work posts were envisaged and a new sector for reporting, risk and irregularity management, as well as a new Department of technical and economic analysis are established according to the needs of the IA. Only in the Managing Authority there was a reduction of work positions, as well as reduction of number of departments within the institution, but these changes are aligned with the WLA prepared by the MA itself.

Analysing the efforts and corrective measures of MNE structures related to the reservation issued in the AMD 2020, the Audit Authority considers mitigation measures defined within the Action plan related to reservation in the AMD as conducted, except the decision related to key IPA staff appointments, which is not adopted yet. 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

AA confirms that it is not aware of any subsequent events affecting the previous audit opinion and the previous AAAR, i.e. for FY 2020.

8. OTHER INFORMATION

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

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

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

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

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

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

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

In the Annual Management Declaration for FY 2021 for IPARD II submitted by NAO to EC, No. 17-908/22-4092/1 from 15th February of 2022, 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 of the major IPA institutional and functional changes
- Overview of the key audit findings and recommendations
- Overview of the results of KRI measurement
- Overview of the results of KPI measurement
- Overview of Irregularity Reports in 2021
- Overview of risks treated in 2021
- Staff overview table and progress in respect to staff capacities and staff fluctuation
- Register of Changes
- Registers of exceptions of NAO/MS and IPARD OD bodies

- Follow up of the Action plan on n+4 rule IPARD II
- Follow-up on the AP in regards to entrustment of the Measure 7
- Overview of the achievements under entrustment of M7.

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 2021 and additional supporting annexes;
- The audit work carried out does not put in doubt the assertions made in the management declaration.

9. OVERALL LEVEL OF ASSURANCE

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

Based on scope of audit performed, the AA has obtained reasonable assurance for the results presented within this Report. The overall level of assurance on the proper functioning of the management and control systems is based on the result of the systems audit and the audit of samples of transactions including the results of the audit of accounts carried out for the expenditure declared to the European Commission for the FY 2021:

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

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

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

9.2 Analysis of any significant deficiency(ies)

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

Total error rate related to the expenditure declared in the financial year is below the materiality level, based on results of audits performed during FY 2021. AA does not assess errors identified in population as serious deficiencies in the functioning of the management and control system during the year. Amount of the error is affected by one operation which doesn't present an error of systematic nature.

As AA already emphasized within AAAR for FY 2018 (Annex 1, finding no.8) as well as within AAAR for FY 2019 (section 4.4), risk of de-commitment of unused funds is still very high and number of payments during 2021 is not encouraging, i.e. only 48 payments are executed during FY 2021. Currently, through the IPARD Programme, Montenegro has at disposal more than 20 million € to be spent by the end of 2022-2023, which could significantly contribute to strengthening of agriculture sector as well as economical sector in Montenegro which is under additional pressure caused by COVID – 19 outbreaks. AA encourages operating structure, especially IPARD Agency to strengthen capacity of IA by adopting new act of systematisation and increasing number of employees according WLA as soon as possible. In addition, IA should perform adequate root cause analysis for low absorption of IPARD funds in order to increase efficiency and overall reputation on implementation of IPARD Programme in Montenegro.

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

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

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

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

There were no subsequent adjustments made and corrective actions taken.

10. TABLE FOR DECLARED EXPENDITURE AND SAMPLE AUDITS

Fund/ Programme	A	B		C	D	E		F	GI	JH
	Expenditure declared to the Commission in reference to the year	Expenditure audited and its part from the expenditure declared to the Commission		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Other expenditure audited ³⁴	Amount of irregular expenditure in the expenditure sample (if any)
		Public (EU + national)	EU part only			Amount	%	%		
Programme for Agriculture and Rural development of Montenegro - IPARD II	2.577.066,39€ ³⁵	883.536,60€	662.672,70€	48	10	631,76€	0.1	0.1	/	/

11. ABBREVIATION AND ANNEXES

- **Annex 1 Evaluation of the ICS**
- **Annex 2 Substantive testing of operational transactions**

³⁴ Expenditure from complementary sample and expenditure for random sample not in the reference year (amount).

³⁵ This amount is relate only to 48 final payments.

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

List of abbreviation

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

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