



**MONTENEGRO**  
**AUDIT AUTHORITY**

No: 01-908/25-166

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

FOR THE PERIOD FROM 01 JANUARY UNTIL  
31 DECEMBER 2024

Podgorica, March 15<sup>th</sup>, 2025

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## 1. INTRODUCTION

### 1.1 Identification of the Audit Authority and other bodies that have been involved in preparing the report

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

According to the Law, the AA shall be managed by the Auditor General. Ms. Ksenija Barjaktarović was appointed by the Government of Montenegro as Auditor General on session held on November 16<sup>th</sup>, 2022.

The Annual audit activity report (hereinafter: AAAR) has been prepared solely by the Audit Authority of Montenegro, Department for audit of agriculture and rural development. The AAAR is prepared following Annex D to the Financial framework partnership agreement between the European Commission and Montenegro represented by the Government of Montenegro on specific arrangements for implementation of Union financial assistance to Montenegro under the Instrument for preaccession assistance (IPA III) (hereinafter: FFPA), as well as relevant European Commission (hereinafter: EC) Guidelines. List of AA team members that were involved in the preparing the AAAR is presented in the following table:

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant / certified auditor	Part of the AAAR
			General	IPARD			
AA	Rina Mučaj Demirovic	Authorized Auditor / Head of Department for audit of the program of agricultural and rural development	12 years and 9 months	11 years and 9 months	P	Certified auditor/ State auditor	All listed members were involved in the preparation of this Report
	Marko Tomčić	Authorized Auditor	6 years and 11 months	6 years and 11 months	P	Certified auditor/ State auditor	
	Marija Perović	Authorized Auditor	8 years and 3 months	8 years and 3 months	P	Certified auditor/ State auditor	

## 1.2 Reference period and the scope of the audits (including the costs recognised declared to the Commission for the period concerned)

Pursuant to Article 3(f) of the FWA for IPARD II as well as Article 3(i) of the FFPA for IPARD III, reference period for this AAAR is financial year and covers the period from **1<sup>st</sup> January to 31<sup>st</sup> December 2024**.

Additionally, considering the closure of the IPARD II programme, within this report, AA provides information on all outstanding issues.

The audit activities performed in the audit period for the financial year were governed by the **Audit Strategy 2024-2026 for IPARD II**. The audit scope for IPARD II programme consisted of:

- System Audit (test of controls) in order to verify the functioning of the management, control and supervision system,
- Audit of sampled transactions/operations in order to certify the legality and regularity of the expenditure declared.,
- Audit of Accounts including non-operational transactions in order to certify the completeness, accuracy and veracity of the annual accounts
- Verification of Annual Management Declaration issued by the National authorising Officer
- Follow-up activities.

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 2024 (in accordance with the Annual Declaration (Form D2)) is presented in the table below:

Quarter in 2022	Number of executed final payments in quarter	Number of executed interim payments in quarter	Number of executed advance payments in quarter	Amount of executed final payments (EU/IPA part) €	Amount of executed final payments (National part) €	Amount of executed interim payments (EU/IPA part) €	Amount of executed interim payments (National part) €	Amount of executed advance payments (EU/IPA part) €	Amount of executed advance payments (National part) €
Q1	7	2	1	114.861,07	38.287,03	160.043,56	53.347,85	5.233,21	1.744,40
Q2	61	7	1	1.690.846,69	563.615,69	288.732,67	96.244,23	33.509,42	11.169,81
Q3	102	5	0	2.570.975,38	856.991,90	354.028,53	118.009,53	0,00	0,00
Q4	150	13	0	5.988.842,39	1.996.281,05	496.614,71	165.538,28	0,00	0,00
<b>Total</b>	<b>320</b>	<b>27</b>	<b>2</b>	<b>10.365.525,53</b>	<b>3.455.175,67</b>	<b>1.299.419,47</b>	<b>433.139,89</b>	<b>38.742,63</b>	<b>12.914,21</b>

As it is presented in the table above, in the D1s for the FY 2024 there were 349 executed and declared payments to the EC, i.e. 320 final, 27 interim and 2 advance payments under the contracts financed from IPARD II programme.

## IPARD III

In accordance with the Law on Audit of EU Funds and the Audit Strategy 2024-2026 for the IPARD Programme for Montenegro 2021-2027 (IPARD III Programme), the AA of Montenegro conducted system audit of the MCS established for implementation of IPARD III Programme. Audit objective was to determine whether the MCS established for IPARD III functions efficiently and effectively and conforms to the requirements of the IPA Financial Framework Partnership Agreement and/or any other agreements between the Commission and Montenegro in the framework of IPARD III Programme.

As regards IPARD III programme, did not incur expenditure in FY 2024, only received pre-financing from DG Agri. Therefore, there is no expenditure declared to the EC.

### **1.3 Identification of the programme/action(s)/sector(s) covered by the report and of its/their Management Authority and IPARD Agency**

The AAAR report covers policy area 'Agriculture and Rural Development' of the Instrument for Pre-Accession Assistance (IPARD II and III), Programmes for the Development of Agriculture and Rural Areas in Montenegro for period 2014-2020 and 2021-2027.

The IPARD II Programme was adopted by Commission Implementing Decision C (2015)5074 from 20<sup>th</sup> July 2015, last modified in December 2024. 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.

Financing Agreement for the IPARD II Programme for Montenegro was signed in December 2017 for 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

amended in June 2021 for measure:

- Farm diversification and business development.

As well as in December 2024 for measure:

- Technical assistance.

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

consequently the relating conditions and limitations were lifted as of the date of the referent letter of DG AGRI. Although DG AGRI auditors verified that the conditions of the Financing Agreement were satisfied, National authorities were still obliged to report on the status of implementation of the Action plan on quarterly basis.

Further, on 2<sup>nd</sup> 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. During 2024, Montenegrin IPARD authorities submitted additional and updated information on DG AGRI request in order to provide additional guaranty that institutional framework is established and legal base is set in place. Based on letter Ref. Ares(2024)9036582 from 17/12/2024, DG Agri informed Montenegro authorities that the date of 6 December 2024 is the date of entry into force of this Agreement amending the Financing Agreement 2014-2020.

Programme for the Development of Agriculture and Rural Areas - IPARD III Programme was adopted by Commission Decision C(2022) 4726 from 29/06/2022 and was amended on 14/12/2023 and 22/07/2024. IPARD III programme is implemented by indirect management without ex-ante verification. The total indicative cost for the execution of IPARD III Programme, including EU, national and private contribution, for period 2021-2027 is 128.313.724 EUR, and the maximum Union contribution to this Programme is set at 63.000.000 EUR.

Within IPARD III Programme, 7 measures are envisaged:

- Investments in physical assets of agricultural holdings;
- Investments in physical assets concerning processing and marketing of agricultural and fishery products;
- Agri-environment-climate and organic farming measure;
- Implementation of local development strategies-LEADER approach;
- Investments in rural public infrastructure;
- Farm diversification and business development and
- Technical assistance
- Establishment and protection of forests.

Financing Agreement for the IPARD III Programme for Montenegro was signed in February 2024 for the following measures of the IPARD III Programme:

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

However, in the Financing Agreement the following condition has been included in Article 7:

1. Without prejudice to any other conditions stated in the FFPA, the sectoral agreement and the IPARD III programme, the entrustment of budget implementation tasks specified in Article 6 shall be subject to the following conditions:
  - Payments to the recipients for IPARD III should not be carried out until the IPARD Agency has implemented the recommendations related to the major non-compliances arising from

DG AGRI audit with reference ITR/2021/006/ME. The NAO is requested to report on a quarterly basis on the state of play of implementation as of 15.10.2023.

As regards MCS, structure, bodies and responsibilities of the MCS for IPARD II and IPARD III are the same. Therefore, AA considers that a common management and control system has been established for both programmes. Structures and bodies being part of the Management and control supervision system for both programmes are as follows:

- The National IPA Coordinator (hereinafter: NIPAC) – **Ms. Maida Gorčević**, the minister of European Affairs appointed on 6<sup>th</sup> February 2025. The NIPAC is responsible for overall process of strategic planning, coordination of programming, monitoring of implementation, evaluation and reporting of IPA assistance;
- The National Authorizing Officer (hereinafter: NAO) – **Ms Milica Adžić** – State secretary in the Ministry of Finance appointed on February 8<sup>th</sup> 2024. The NAO has overall responsibility for the financial management of IPA assistance in Montenegro and for ensuring the legality and regularity of expenditure. The NAO is responsible for the management of IPA II/III accounts and financial operations and the effective functioning of the internal control systems for the implementation of IPA assistance.
- The Management Structure – Directorate for management of the EU pre-accession funds structures within Ministry of Finance, managed by Director General **Mr Velibor Damjanović**, also performing function of Deputy NAO in case of NAO absence, who was appointed at the session held on 11<sup>th</sup> July 2024. The Management structure consists of two separate divisions, which are formally established on October 25<sup>th</sup> 2017:
  - National Fund<sup>1</sup> / Accounting body<sup>2</sup>- Division for national fund and managing of accounts – **Ms Žana Jovanović** - Head of Division from April 1<sup>st</sup> 2019. Division is in charge of tasks of financial management of IPA assistance, under the responsibility of the NAO. The NFD/AB is responsible for holding and organizing the central IPA bank accounts, requesting funds and receiving all payments from the Union budget, authorizing the transfer of such payments to the operating structures or to the recipients, returning funds to the Union budget following recovery orders issued by the Commission, supporting NAO in preparing financial reporting to the Commission and operating computer based accrual accounting system that provides accurate, complete and reliable information in a timely manner.
  - NAO support office - Division for control framework management and system supervision – managed by **Ms Ivana Cupic** – Head of NAOSO from 19<sup>th</sup> August 2024. The NAOSO is accountable to the NAO and assists the NAO in fulfilling defined tasks
  - IPARD Managing Authority – Directorate for Rural Development in the Ministry of Agriculture, Forestry and Water Management, managed by **Ms Andrijana Rakočević**, appointed on 16<sup>th</sup> September 2021 as acting Director General and on 2<sup>nd</sup> February 2022

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<sup>1</sup> IPARD II

<sup>2</sup> IPARD III

formally by the Government of Montenegro. The MA is responsible for preparation, monitoring of implementation of IPA rural development programmes and evaluation.

- IPARD Agency – Directorate for payments in the Ministry of Agriculture, Forestry and Water Management, managed by Director General **Mr Marko Radonjić**, appointed by the Government of Montenegro on September 14<sup>th</sup> 2023. The IA is responsible for the implementation of measures under indirect management and for ensuring the legality and regularity of the expenditure incurred in the implementation.

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

#### **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 as well as in Article 63 of, and Clause 9(6) of Annex A of the FFWA, 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 strategies 2024-2026 for both programmes 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 FFWA. The AAAR 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 2024.

In accordance with Art.59 (2) of the FWA for the Programme IPARD II the NAO has submitted the **Annual Management Declaration and Annual financial report for FY 2024**<sup>3</sup> to the Commission with a copy to the NIPAC and AA.

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<sup>3</sup> On 14<sup>th</sup> February 2025 (Ref. 08-908/25-1781/2)

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

Based on the available information and results presented in AAAR, the AA issued a separate annual audit opinion for financial year 2024, following Guideline 8 Audit Opinion for IPARD II. The AA prepared an annual audit opinion in accordance with the second subparagraph of Article 60(5) of the Financial Regulation and following the model set out in Annex E to the FWA, on the annual financial reports or statements and the underlying annual accounts for the preceding financial year, covering their completeness, accuracy and veracity and on the functioning of the management, control and supervision system and the legality and regularity of the underlying transactions.

Moreover, in the framework of the closure of IPARD II, pursuant to Article 12(4) of Commission Implementing Regulation (EU) No 447/2014, the Audit Authority provides an audit opinion on the final statement of expenditure following the model of Annex F to the Framework Agreement for IPARD II.

In accordance with Article 61 (2) to the FFPA, the NAO has submitted the **Annual Management Declaration for IPARD III and the Annual Declaration of accounts for FY 2024** (Annex 6 to the SA).

With a view to drawing up an audit opinion, the Audit Authority assessed results of audit activities from the performed audit of management and control system, audit of annual declaration of 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 an annual audit opinion for IPARD III for financial year 2024 following model provided in Annex E to the FFPA.

Based on risk assessment for IPARD II and III, Section 3(b) of Annex B to the FWA for IPARD II and Section 3 (principle 11) of Annex B to the FFPA for IPARD III were not within audit scope for FY 2024. As regards Information system security, AA conducted follow up of the finding that was issued in FY 2023, as well as follow up of implementation of Action plan regarding ISO 27002. Namely, an external company on behalf of DG Agri has conducted audit in IA and Management Structure in October 2021 and issued Report in February 2022 with findings and recommendation. As response to the findings identified by DG Agri auditors, IA and Management structure have prepared an Action plan with defined deadlines for implementation of recommendations related to ISO/IEC 27002. According to Letter Ref. Ares (2023)5251704 from 28<sup>th</sup> July 2023, NAO is in charge of reporting quarterly on the state of implementation from 15<sup>th</sup> October 2023 and AA should monitor the progress of implementation of recommendations related to Information systems security - IT audit enquiry with reference ITR/2021/006/ME and report to DG AGRI every 3 months as of the date of received letter. Follow up on DG AGRI letter and Information system recommendations was performed by the AA in January/February 2025. Results are submitted to DG Agri on 13<sup>th</sup> February 2025.

In order to obtain a more realistic overview of the situation and whether progress has been made, the AA compared the IA's and Management structure's responses from July 2024 with the situation assessed in

January 2025. The AA considers that improvement has been made since majority of recommendations from the Action plan were acted upon in IPARD agency (24/28).

For implementation of information system security requirements, AA considers that the involvement and support of the entire MCS is extremely important because they require certain financial and organizational resources.

As regards Management structure, external company on behalf of DG Agri performed a limited review over the findings and action plans, resulting from DG NEAR information security systems audit carried out to the National Fund in 2016 [Ares (2017)1012215 dated on 24/02/2017] and its follow-up in 2018 [Ares (2018)2662644 dated on 23/05/2018]. DG Agri auditors observed that comprehensive information security policies have not been fully developed in accordance with the ISO 27002 standard, the action plan addressing the requirements of the findings from DG NEAR audits was adopted on 19<sup>th</sup> March 2020 and the implementation (scheduled for the period 2020 – 2022) has been delayed due to external factors. AA noted that within technical assistance project Support to the Directorate of Management Structure, an IT expert has been engaged in relation to resolving Information Security Policy issues. With the expert support, the Action Plan for implementation of Information Security on the basis of ISO 27002 standard at the level of IPA framework for the period 2025-2027 is adopted by the Government on 20<sup>th</sup> December 2024. As for recommendation from DG Agri for MS, AA considers that they are not implemented yet. AA's reply on the follow up of Action plan is presented as Annex 7 to this Report.

Taking into consideration the importance of information system security and the staff capacity of AA, the AA determined the need for an Auditor's Expert support. According to Art.28 (Engagement of experts) to the Law on the Audit of Funds from EU Funds, as well as ISA 620 Using the work of an auditor's expert, the AA engaged an external IT expert, in order to receive adequate technical support in assessment of IA's and MS's replies related to implementation of recommendations from the Action plan for ISO/IEC 27002 as well as in obtaining sufficient audit evidence while assessing the IA's reply related to AA's finding from FY 2023.

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

- Fulfilled Annex 18. Using the work of an auditor's expert from the AAs Manual of procedures (v.1.2.) in order to evaluate the competence, capability and objectivity of the expert,
- Provided to the expert necessary information, documentation and checklists for work,
- obtained an understanding of the work of the expert (nature, scope and objectives of expert's work) by constant and direct supervision,
- evaluated the appropriateness of expert's work (relevance and reasonableness of expert's findings and conclusions, and their consistency with audit evidence).

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

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

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

### **2.1 Details of any major changes in the management and control systems and confirmation of its compliance with Article 8 of Commission Implementing Regulation (EU) No 2021/2236 based on the audit work carried out by the Audit Authority <sup>4</sup>**

During 2024, the NAO informed the European Commission and Audit Authority about substantial changes in the system. The following changes occurred since the last Annual Audit Activity Report submitted to EC on 15<sup>th</sup> March 2024:

- *Changes in the procedures and legislation are presented in the Table below:*

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<sup>4</sup> 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 the same Regulation for IPARD II

IPARD body and the specific function concerned	Brief description of the change	Assessment of the change by NAO (substantial or non—substantial and the date)	Impact on the MCS: low – L, medium – M or high – H	Date of notification to		Date of entry into force
				AA	EC	
All IPARD Institutions – reconstruction and reorganization of the institutional framework	Reorganization on the level of Government of Montenegro and adoption of the Decree on Amendments to the Decree on the Organization and mode of Operation of the State Administration ("Official Gazette of Montenegro, No. 71/2024)	Substantial approved by Government on	L	n/a	n/a	23/7/2024
All IPARD Institutions	Amendment of IPARD II 2014-2020, version 1.7 approved by European Commission on 10/12/2024	n/a	L	12/12/2024	-	10/12/2024
All IPARD Institutions	Amendment of the Programme for the development of agriculture and rural areas in Montenegro under IPARD III 2021-2027, v.1.2	n/a	L	26/8/2024	-	22/7/2024

IPARD Agency	Manual of Procedures version 2.4	non—substantial	L			24/4/2024
IPARD Agency	Manual of Procedures version 3.0	non—substantial	L	25/7/2024		24/7/2024
All IPARD Institutions	Financing Agreement IPARD III		L	02/04/2024		02/02/2024
All IPARD Institutions	Manual of Procedures version 1.0 – IPARD III DMS	non—substantial	L	03/04/2024 23/5/2024		18/3/2024 20/5/2024
IPARD Agency	Manual of Procedures version 1.1 – IPARD III	non—substantial	L	24/4/2024		24/4/2024
IPARD Agency	Manual of Procedures version 1.2 – IPARD III	non—substantial	L	25/7/2024		24/7/2024

- Changes in key staff since last AAAR for FY 2023:

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointment of the new person: permanent (P) or temporary (T)	Date of the approval by NAO	Date of notification to		Impact of the change: low - L, medium – M or high - H
		From	Until	AA	EC		From	Until			AA	EC	
NIPAC	Mr Bojan Božović	11/1/2024	23/07/2024			Ms Maida Gorcevic	6/2/2025	-	T	N/A	17/2/2025	17/2/2025	L

## MS

Position affected	Previous person	Position held by the previous person		Date of notification to		New person	Position held by the new person		Appointment of the new person: permanent (P) or temporary (T)	Date of 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 Management structure	Ms Anja Amidžić	20/04/2022	11/07/2024	23/7/2024	23/7/2024	Mr Velibor Damjanović	11/7/2024	5-year period	T	N/A	23/7/2024	23/7/2024	M

## NAOSO

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 NAOSO	Mr Velibor Damjanović	4/2019	11/7/2024	23/7/2024	23/7/2024	Ms Ivana Cupic	19/8/2024	-	P	N/A	21/8/2024	N/a	M

AA

<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 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>From</i>	<i>AA</i>	<i>EC</i>		<i>From</i>	<i>Until</i>			<i>AA</i>	<i>EC</i>	
<i>Deputy AA</i>	<i>Ms Natasa Simonovic</i>	<i>21/11/2013</i>	<i>18/4/2024</i>	<i>n/a</i>		<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>M</i>

The AA confirms that, in addition to all substantial changes, **the MCS remains in compliance with Article 8 of Commission Implementing Regulation (EU) No 2021/2236<sup>5</sup>.**

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

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

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

From the last AAAR for FY 2023, 3 exceptions initiated by the IA were approved by the NAO/Deputy NAO related to IPARD II programme:

### 1. Modification of procedures related to authorisation of payments and approval of projects<sup>6</sup>

#### *I part of exception*

According to AA finding, in the Checklists for completeness and compliance a question was added for number for interim payments, because according to Decree and MoP, recipient can submit maximum 3 interim payments.

#### *II part of exception*

According to the amendment to the Decree on the realization and procedure of using funds from the instrument of European Union pre-accession assistance - procedures in DAP were changed in the way that the recipient can have a possibility to use advance payment and payment in instalments.

Also, according to the amendment to the Decree on the realization and procedure of using funds from the instrument of European Union pre-accession assistance - procedures in DAP were modified in case of interim payment, i.e. DAP shall submit request for on the spot control if the recipient uses funds for the first time or if the interim payment request is in amount of 50% or more of total contracted amount. In other cases, the request for on the spot will be send in final phase.

#### *III part of exception*

According to AA recommendation, part related to visibility requirements was modified in contract for allocation of funds.

Also, according to AA recommendation, part related to hidden works was amended and deadline for notification IA was added.

#### *IV part of exception*

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<sup>5</sup> Article 7 of Regulation (EU) No 447/2014

<sup>6</sup> Approved by the Deputy NAO on 11/3/2024

In accordance with IPARD II Annex 2 to guideline<sup>2</sup> error evaluation, DAP amended procedures for underpayment. In case of underpayment, funds for recovery to recipient cannot be used from EU funds. The funds will be recovered from national funds.

Exception implies changes in the procedures and amendment of Contracts.

## 2. Extension of the deadline for realization of the investment<sup>7</sup>

At the session held on 30/5/2024, the Government of Montenegro considered and adopted the Proposal for information on changing the deadline for the realization of investments and submission of requests for payment within the framework of the First Public Call for Measure 7 Diversification of agricultural holdings and business development, sub-measure 7.1 Support for investments for the development of rural tourism and the Fifth Public Call through Measure 1 Investments in physical assets for agricultural holdings of the IPARD II programme. Namely, in the Contract for allocation of funds, Article 8, paragraph 1, point 2, deadline for sub-measure 7.1 was 1/6/2024, while for Measure 1, 30/6/2024. By Government conclusion, the deadline for realisation was extended for one month.

Exception implied amendment of the Contracts.

## 3.Modification of procedures regarding on the spot before payment<sup>8</sup>

During the field inspection of construction works, IA encountered a situation where, upon arriving at the site in response to several requests, controllers observed ongoing construction activities on a project that were supposed to be completed by the date the payment request was submitted.

Considering that the work was not completed at the time of the payment request submission, IA requested an exception in order to include a question in the checklists for on the spot before payment whether or not the investment is finished at the time of field control, in order to discontinue further inspections of construction sites where activities are still ongoing and conclude the performing OTSC.

As regards IPARD III, 5 exceptions have been approved by the NAO/Deputy of NAO during FY 2024:

1. Modification of procedures in Unit for technical and economic analysis and Unit for publicity and authorization of projects<sup>9</sup>

### *1 part of the exception*

1 part of the exception is related to:

- more detailed description within document DP-UTEA-00-00 Manual and it concerns the deadweight part of the check and the part about monitoring the implementation of procurement procedures.

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<sup>7</sup> Approved by the NAO on 31/5/2024

<sup>8</sup> Approved by the NAO on 25/6/2024

<sup>9</sup> Approved by the Deputy of NAO on 14/5/2024

- in the part of monitoring the work of the Evaluation Committee, the number of advisors who will monitor the work of the Evaluation Committee is increased - DP-UTEA-00-02 Guideline for EvC.
- Harmonization of documents (DP-UTEA-00-04 Invitation for the offers-quotations for goods and DO-UTEA-00-05 Invitation for the offers-quotations for work) in accordance with the rule of origin for IPARD III Program.

*II part of the exception*

II part of exception is related to harmonization of documents in accordance with the IPARD III program and the audit body's recommendations.

As the version 1.0 did not include some of IPARD III criteria (origin rule, support limit for maximum support through all measures, selection criteria, support regarding general cost, deadweight, and photovoltage system in case of construction-reconstruction, ranking criteria) through this exception, some questions in Checklist were added, and in Manual was changed regarding the mentioned criteria.

*III part of the exception*

This part of the exception is related to changing the procedures in regard to amendment of the Manual of Unit for publicity and authorization of projects. In order to speed up procedure and not to double the work, in Business plan assessment, the part of economic analysis was deleted since it is done by the Unit for technical and economic analysis.

2. Alignment of the procedures with requirements from IPARD III programme<sup>10</sup>

Exception relates to alignment of the procedures and checklists of the Unit for publicity and authorization of projects with requirements defined in IPARD III. Exception refers to Checklist DP-UPAP-00-07 Completeness and eligibility check list for Measure 3, DP-UPAP-00-08 Completeness and eligibility check list for Measure 7 and DP-UPAP-00-02 – Application form for Measure 3 and list of necessary documentation with changes in several number of questions.

3. Harmonization of the documents DP-UPAP-00-01 Application form for Measure 1 - Investments in physical assets of agricultural holdings, List of necessary documentation for Measure 1 and DP-UPAP-00-06 Completeness and Eligibility check list for Measure 1<sup>11</sup>

The exception refers to the alignment with changes in the IPARD III Program version 1.2 and the technical arrangement (the definition of the beneficiary of Measure 1 - Investments in physical assets of agricultural holdings has been harmonized, the name of the sector in which it is possible to obtain support has been corrected, the name of the definition of the beneficiary who does not have the required volume of production at the time of submitting the application for support, the ownership of the investment in question and the duration of the lease agreement have been more clearly defined, the procedures related to the fulfilment of specific eligibility criteria related to Measure 1 have been clarified. More clearly defined Annex 3 criteria for scoring and ranking of eligible applications for Measure 1. The audit authority recommendations were accepted related to additional questions on the checklist for young farmers and altitude and were added to the checklist.

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<sup>10</sup> Approved by the NAO on 25/6/2024

<sup>11</sup> Approved by the NAO on 28/8/2024

4. Amendment of the DP-UPAP-00-22 Contract for allocation of funds, DP-UPAP-00-07 Completeness and eligibility checklist for measure 3 and DP-UPAP-00-27 Calculation for investment <sup>12</sup>

*I part of the exception*

The amendment to the Contract for allocation of funds was in order to regulate the rights and obligations of the IA and the beneficiary in accordance with the IPARD program and based on previous experience of work on applications.

*II part of the exception*

The IPARD programme stipulates that within IPARD III programme, the recipient can receive a total support of maximum EUR 3,000,000 of public support under all measures, collectively for the programming period of IPARD II programme and IPARD III programme. The IA amended DP-UPAP-00-07 Completeness and eligibility checklist for measure 3 in order to give the opportunity to applicants who at the time of application did not receive a total support of maximum EUR 3,000,000 of public support under all measures, collectively for the programming period of IPARD II programme and IPARD III programme, to conclude a contract with the IA, and that the amount of support will be assessed at the payment stage, considering the total support paid out under the programming periods of IPARD II and IPARD III. Applicants who would potentially receive a payment of support exceeding the total amount of 3 million under public call will be contracted for the requested amount, but with the option to implement the part of the investment exceeding the total amount of 3 million from their own funds.

*III part of the exception*

The exemption relates to alignment of DP-UPAP-00-27 Calculation for investment with the IPARD III program in the part related to support intensity, so that cumulative support cannot exceed 75%.

This exception implies change in the procedures and relevant checklist.

5. Exception related to verifying the reasonableness of prices for First public call for Measure 1 <sup>13</sup>

First public call for M1 lasted from 29<sup>th</sup> August to 29<sup>th</sup> November 2024. In accordance with the applicable procedures for the Reference Price Database, it is prescribed: "When the Public Call for Granting the Financial Support is opened, the reference price database calculates the reference price for all verified items with a valid price expiration date (maximum 24 months from the date of issuance of the price) and which are registered until the date of publication of the current Public Call." This would imply that the calculation of reference prices includes all items entered by the end of August 2024.

Referent Price Database for this call has been updated according to the offers issued for the previous call - Fifth Public Call for Measure 1 (IPARD II Program), as well as based on market research conducted by the Evaluation Committees (offers issued 9-10 months ago and research done half a year ago).

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<sup>12</sup> Approved by the NAO on 18/12/2024

<sup>13</sup> Approved by the NAO on 26/12/2024

However, while entering certain products' information into the database, some technical mistakes were made, so IA did not have an adequate reference price for certain products. Since the maintenance contract for RPD expired in November 2023 and it was concluded in October 2024, after the closure of the public call, IA requested and NAO approved an exception to assess the reasonableness of prices for First public call for M1 through the Evaluation commission.

This exception does not imply an amendment of the Manual of procedures.

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

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

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

#### **3.1 Details of any changes that have been made to the audit strategy and related explanations. In particular, indicate any change to the sampling method used for the audit of operations (see Section 5 )**

Audit strategy 2024-2026 for IPARD II programme which was submitted to the EC in 30<sup>th</sup> November 2023, had been prepared taking into account information available at the time and considering the requirement presented in Guideline No 2, section 6.2.1, where it is stated that auditors shall test the controls at least once over a period of three years. However, since FY 2024 was the last year for the implementation of the IPARD II programme and planned closure in FY 2025, status of implementation of IPARD III, auditor`s workload as well as the common Management and control system for both programmes, AA updated the Audit strategy 2024-2026 and submitted it to the DG Agri on 7<sup>th</sup> June 2024. According to the updated Audit strategy, the audit scope of system audit was changed. Taking into consideration that there were no significant procedural changes in relation to previous years and that AA carried out comprehensive system audits (tests of procedures and compliance testing) every year and covered all bodies of Management and control system as well as all internal control requirements set out in Annex B of the FWA, within scope of system audit for IPARD II AA planned compliance testing of operational transactions and compliance testing of ex-post controls conducted by IA.

The structures, authorities and bodies of the internal control system as defined in Articles 10(1)(c) and 10(2) of the FWA for IPARD II have the same functions and the same allocation of functions within each body as the ones defined in in Articles 10(1)(c) and 10(2) of the FFPA for IPARD III. Consequently, AA considers that a common management and control system has been established for both programmes.

Even though a common management and control system has been established for both IPARD II and IPARD III programmes, AA assessed it more appropriate to prepare separate audit strategy 2024-2026 for IPARD III, which was submitted to the DG Agri on 2<sup>nd</sup> September 2024. Justifications for this approach were, among others, the following: new template for audit strategy as Annex G of the FFPA, new manual of procedures for IPARD III (v.1.0), which includes new risk factors depending on the status of implementation of the programme, etc. Taking into consideration the initial phase of implementation of IPARD III programme, based on risk assessment results and professional judgement, AA considered it more appropriate to assess establishment of structures and objectives for the new perspective 2021-2027 and therefore, planned to conduct system audit in all bodies of the MCS for IPARD III for financial year 2024, with focus on control environment, risk assessment and control activities (control procedures). However, taking into consideration the workload due to the huge number of transactions declared under IPARD II, the obligation to follow up of Action plan related to ISO 27002 and the need to rationalize audit work while maintaining efficiency and effectiveness at a satisfactory level, AA conducted system audit of ICF components Control environment and Risk assessment for all bodies constituting MCS for IPARD III. As regards Control activities-control procedures, auditors have reviewed written procedures which are connected to the ICF requirements within the audit scope (HR, Irregularities, Risk management, Internal audit, reporting, etc.). Auditors have checked whether the requirements set out in the Agreements, in the IPARD Programme and in the List of eligible expenditure are incorporated in the procedures of the relevant entities of the MCS. Even though audit scope consisted of Control environment and Risk assessment, auditors have reviewed additional parts of written procedures related to control activities which were linked to the ambiguities and omissions identified in the decrees, IPARD program, public calls, etc., for which findings arose. Therefore, auditors have checked the setup of the system, while a detailed review of procedures related to control activities as well as functioning of the system will be checked in the following system audits and audits of operations, where new issues and findings may arise.

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

### **3.2 Other changes of the audit strategy**

All changes are presented in point 3.1.

## **4. SYSTEMS AUDITS**

### **4.1 Details of the authorities/bodies that have carried out system audit, including the Audit Authority itself**

The audit body that has carried out the system audits for IPARD II and IPARD III is Audit Authority of Montenegro. The AA, carried out audit work, following section 6 of Guideline No 2, in order to assess the Internal Control framework of the bodies constituting management and control system for IPARD programme. System audit was carried out by auditors of the Department for audit of the program of agriculture and rural development. Audit work for IPARD II is conducted based on procedures described in AA Manual of procedures for IPARD Programme, version 1.2, which was adopted in 7<sup>th</sup> June 2024.

In the context of system audit for IPARD II, following section 6 of Guideline No 2, the AA performed system audit with objective to determine whether the Internal Control systems established in the IPARD Agency Managing Authority National Fund Division) and NAO support office, for financial year 2024, 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. According to Audit Strategy 2024-2026, system Audit of for IPARD II was carried out through compliance testing of ex-post controls as well as compliance testing of operational transactions.

The list of the AA team members involved in system audit for IPARD II is presented in the table below.

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant / certified auditor	Type of audit work carried out by the body/person
			General	IPARD			
AA	Rina Mučaj Demirović	Authorized Auditor / Head of Department for audit of the program of agricultural and rural development	12 years and 9 months	11 years and 9 months	P	Certified auditor / State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Marija Perović	Authorized Auditor	8 years and 3 months	8 years and 3 months	P	Certified auditor / State auditor	Compliance testing
	Marko Tomčić	Authorized Auditor	6 years and 11 months	6 years and 11 months	P	Certified auditor / State auditor	Compliance testing
	Luka Miranović	Junior Auditor	3 year and 10 months	3 year and 10 months	P	Certified auditor / State auditor	Compliance testing

Audit work for IPARD III is conducted based on procedures described in AA Manual of procedures for IPARD III Programme, version 1.0, which was adopted in 30<sup>th</sup> August 2024.

Additionally, according to Art.28 (Engagement of experts) to the Law on the Audit of Funds from European Union Funds, as well as International Standard on Auditing (ISA) 620 Using the work of an auditor's expert, the AA engaged an external IT expert, in order to receive adequate technical support in assessment of IPARD Agency's and Management Structure's replies within Action plan related to

implementation of ISO/IEC 27002 (DG AGRI Letter Ref. Ares (2023)5251704 from 28/07/2023), as well as to assess the IA's reply on follow up of AA's finding related to security control activities.

The list of the AA team members involved in system audit for IPARD III is presented in the table below.

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant / certified auditor	Type of audit work carried out by the body/person
			General	IPARD			
AA	Rina Mučaj Demirović	Authorized Auditor / Head of Department for audit of the program of agricultural and rural development	12 years and 9 months	11 years and 9 months	P	Certified auditor / State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Marko Tomčić	Authorized Auditor	6 years and 11 months	6 years and 11 months	P	Certified auditor / State auditor	Risk assessment (6.5, 6.6, 6.7, 7.1, 7.2, 7.3, 8.1, 8.2, 9.1)
	Marija Perović	Authorized Auditor	8 years and 3 months	8 years and 3 months	P	Certified auditor / State auditor	Control environment (2.1, 2.2, 2.3, 2.4, 3.1, 3.2, 3.3, 4.4) Risk assessment (6.1, 6.2, 6.3, 6.4, 6.8)
	Luka Miranović	Junior Auditor	3 year and 10 months	3 year and 10 months	P	Certified auditor / State auditor	Control environment (1.1, 1.2, 1.3, 4.1, 4.2, 4.3, 5.1, 5.2, 5.3)

#### 4.2 Summary table of the audits carried out

Following table includes summary of the system audit for IPARD II programme:

<b>Audit period</b>	<b>1. Programme (name and CCI)</b>	<b>2. Audit Body</b>	<b>3. Audited Body(ies)</b>	<b>4. Date of the audit</b>	<b>5. Scope of the audit</b>	<b>6. Principal findings and conclusions</b>	<b>7. Problems of systemic character and measures taken</b>	<b>8. Estimated financial impact (if applicable)</b>	<b>9. State of follow-up (closed /or not)</b>
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01.01.2024-31.12.2024 4. i.e. FY 2024	Programme for Agriculture and Rural development of Montenegro - IPARD II No CCI: 2014ME06I4NP001	Audit Authority of Montenegro	IA	June 2024-February 2025	Scope of the system audit for FY 2024 under IPARD II programme included compliance testing of ex-post controls conducted by IA and compliance testing of operational transactions	Compliance testing of ex-post controls – No findings  Findings regarding dual purpose testing are presented in Section 5.8.1 to this Report	/	/	/
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Following table includes summary of the system audit for IPARD III programme<sup>14</sup>:

Audit period	1. Programme (name and CCI)	2. Audit Body	3. Audited Body(ies)	4. Date of the audit	5. Scope of the audit	6. Principal findings and conclusions	7. Problems of systemic character and measures taken	8. Estimated financial impact (if applicable)	9. State of follow-up (closed /or not)

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<sup>14</sup> Annex 6 Final Report on System Audit of functioning of Management and Control system for the IPARD III Programme for Montenegro 2021-2027

February 2024-December 2024	Programme for Agriculture and Rural development of Montenegro - IPARD III No CCI: 2021ME06IPRD001	Audit Authority of Montenegro	Management structure (NAOSO and Accounting body) IA IPARD Managing authority	September 2024-December 2025	Under the audit scope of system audit engagement for IPARD III were the following internal control framework components with relevant requirements: - Control environment - Risk assessment	<ol style="list-style-type: none"> <li>1. Non - Updated Decision on appointment of persons in indirect management of EU pre-accession funds</li> <li>2. Absence of a management information system</li> <li>3. Non-existence of an anti-fraud strategy</li> <li>4. Inadequately defined common eligibility criteria</li> <li>5. Inadequately defined rule of origin</li> <li>6. Insufficiently clearly defined procedure</li> <li>7. Discrepancy within IPARD III programme as well as between the IPARD III Programme and Decree for IPARD III</li> <li>8. Insufficient staff in the IPARD Agency</li> <li>9. Non-appointment of internal control coordinators</li> <li>10. Deficiency in irregularity management process</li> <li>11. insufficient staff in the Management Structure</li> <li>12. Deficiencies related to AWP and WLA</li> <li>13. Inconsistencies in Decree for IPA III</li> <li>14. Absence of KPI – Key performance indicators</li> <li>15. Shortcomings in procedures of Internal audit Department of EU funds</li> <li>16. Lack of staff Internal audit Department of EU funds</li> <li>17. Non-compliance with procedures for WLA</li> <li>18. Absence of whistleblowing procedure</li> <li>19. Inadequate Organizational chart in Manual of procedures</li> </ol>	/	/	<ol style="list-style-type: none"> <li>1. Open</li> <li>2. Open</li> <li>3. Open</li> <li>4. Open</li> <li>5. Open</li> <li>6. Open</li> <li>7. Open</li> <li>8. Open</li> <li>9. Open</li> <li>10. Open</li> <li>11. Open</li> <li>12. Open</li> <li>13. Open</li> <li>14. Open</li> <li>15. Open</li> <li>16. Open</li> <li>17. Closed<sup>15</sup></li> <li>18. Open</li> <li>19. Open</li> </ol>
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### 4.3 Description of the basis for selection of the audits in the context of the audit strategy

According to the procedures, for the purpose of defining of the scope of the audit, during the preparation of Audit Strategies the Audit Authority performed a detailed risk assessment to determine the bodies and priority internal control framework components for conducting system audit.

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

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

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

Specific inherent and control risk factors were assessed for each body and 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.

System audit for IPARD II programme was performed based on the updated Audit strategy 2024-2026 which was submitted to the DG Agri on 7th June 2024. Based on available information at the time and professional judgement, the AA changed the risk assessment and updated the Audit strategy for IPARD II and the explanation is presented in Section 3.1 to this Report. Based on updated Audit strategy and individual engagement plan, within scope of system audit for IPARD II, AA conducted compliance testing of ex-post checks and compliance testing of operational transactions.

As part of the audit for FY 2024, the AA performed verification of IPARD Agency's ex-post controls on investment operations which includes verifications of respecting of commitments laid down in Article 33(6) of the IPARD II programme. The AA also verified whether the requirements defined in Article 14 of the Sectoral Agreement are respected by the IPARD Agency. For the purpose of this verification, the AA performed compliance testing on 10 projects which were sampled from the population consisting of all operational transactions/projects that were subject of ex-post controls from the beginning of implementation of IPARD II programme. Population of ex-posts consisted of 240 transactions (220 from measure 1 and 20 from measure 3). In line with the DG AGRI guideline no 2 and by using IDEA software, the AA randomly sampled 10 projects for compliance testing from the list of executed ex-post controls. There were no findings as a result of audit work.

The compliance testing of was performed using the methodology prescribed in Manual of procedures for IPARD v.1.2 developed by the AA and based on the Guideline 2 “Audit Strategy” issued by DG AGRI.

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

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

For the purpose of compliance testing of operational transactions, selection procedure is explained in section 4.4 of this report.

When it comes to non-operational transactions, according to Guideline No 2, AA conducted substantive and compliance testing of irregularities/debts, advances as well as of transactions related to the IPARD Euro account. Since AA conducted dual purpose testing, sampling details are provided in section 5.2.2 of this report.

**As regards** IPARD III programme, system audit was performed based on the Audit strategy 2024-2026 for IPARD III which was submitted to the DG Agri on 2<sup>nd</sup> September 2024. For the purpose of defining of the scope of the audit, during the preparation of Audit Strategy, the Audit Authority performed a risk assessment in order to determine the bodies and priority internal control framework components for conducting system audit. Before individual audit engagement, AA performed risk assessment in order to understand and select the high-risk areas for performing system audit. Given the initial phase of the implementation of IPARD III programme, where 4 public calls have been published and no contracts have been signed yet, and thus, the fact that not all ICF components for IPARD III could be assessed, based on risk assessment as well as professional judgement, AA decided to audit Control environment as well as Risk assessment for all bodies constituting management and control system.

#### **4.4 Description of the main findings and conclusions drawn from systems audits, including audits targeted at specific thematic areas**

Verifications made by the AA in respect of system audit for IPARD II are as follows:

- The AA verified the implementation of control activities: contracting, payment, budgetary, reconciliation procedures, etc.;
- AA verified the reasonableness of the costs;
- The AA verified whether management identifies and assesses important changes, both internal and external, that can affect the effectiveness of internal controls and have impact on the organisation's achievement of objectives;
- The AA verified IPARD Agency's ex-post controls on investment operations which includes verifications of respecting of commitments laid down in Article 33(6) of the IPARD II programme;

- The AA verified the procedure of identification, assessment and recording of exceptions;
- The AA verified whether adequate segregation of duties is ensured;
- The AA verified whether adequate security procedures (IT and otherwise) that assets and data are kept secure from unauthorized interference and physical damage as well as whether appropriate access rights are in place both in terms of physical access and electronic access at all levels;

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

For purpose of compliance testing, the AA used dual-purpose testing. In line with the DG AGRI Guideline no 2, compliance testing should be carried out on at least 10 transactions for each of the populations defined. Using IDEA software, AA randomly chose two samples for substantive testing of expenditure declared to the EC in Q1 and Q2 (one sample) and one sample from expenditure declared to the EC in Q4 of financial year 2024. In order to cover a variety of transactions, measures and procedures, using professional judgment, AA selected transactions for compliance testing from samples chosen for substantive testing, i.e. 5 transactions from sample of declared expenditure in Q1 and Q2 and 5 transactions from sample of declared expenditure in the Q3 of FY 2024.

List of the transactions reviewed for the compliance testing of the operational transactions<sup>16</sup> is presented in Annex 4 to this Report, as well as in the table below.

List of samples reviewed for compliance testing of operational transactions												
Payment N°	Sample number	ID number	Measure	Coverage of the test (if it covers entire process from the application till the final declaration of expenditure): yes (Y) or no (N)						Amount of transaction (EUR)	Error detected (EUR)	Sample used for dual purpose testing: yes (Y) or no (N)
				Administrative controls	On-the-spot controls	Payment procedures	Accounting procedures	Advances/ securities	Procedures for debts			
Payment N° 1	09-908/21-12128/16	21-01-7-1-0042	7	Y	Y	Y	Y	N/A	N/A	638,99		Y
Payment N° 2	09-908/23-12658/13	23-05-1-0053	1	Y	Y	Y	Y	N/A	N/A	26.849,64		Y
Payment N° 3	09-908/22-6408/43	22-04-1-0021	1	Y	Y	Y	Y	N/A	N/A	59.187,17	59.187,17	Y
Payment N° 4	09-908/21-2244/69	21-03-3-0006	3	Y	Y	Y	Y	N/A	N/A	263.110,16	219,00	Y
Payment N° 5	09-908/23-12665/10	23-05-1-0055	1	Y	Y	Y	Y	N/A	N/A	9.199,95		Y
Payment N° 6	09-908/23-16449/21	23-05-1-0266	1	Y	Y	Y	Y	N/A	N/A	10.320,23		Y
Payment N° 7	09-908/21-11797/39	21-01-7-1-0002	7	Y	Y	Y	Y	N/A	N/A	21.457,02	324,73	Y
Payment N° 8	09-908/22-6476/35	22-04-1-0036	1	Y	Y	Y	Y	N/A	N/A	24.404,47		Y
Payment N° 9	09-908/22-3611/19	22-04-3-0014	3	Y	Y	Y	Y	N/A	N/A	127.088,29		Y
Payment N° 10	09-908/23-15622/16	23-05-1-0179	1	Y	Y	Y	Y	N/A	N/A	21.549,87		Y

Note: Presented errors are result of dual-purpose-testing.

The outcome of the compliance testing of operational transactions is summarized in the Final reports of audit of operations related to the Q1 and Q2 as well as Q3 of FY 2024. Since AA uses dual-purpose testing and according to Guideline No.2 results of compliance testing - are presented in part 5.8.1 of this Report. During dual purpose testing of operational transactions, the AA identified 2 deficiencies in controls which resulted in findings, both findings with financial impact (error).

<sup>16</sup> Annex 1 to the Guideline No 3

The list of the transactions reviewed for the compliance testing of the non-operational transactions are presented in Annex 3<sup>17</sup> to this Report.

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

<b>Procedure</b>	<b>No of transactions tested</b>	<b>Findings (if any)</b>
Administrative controls	10	Section 5.8.1
On-the-spot controls	10	Section 5.8.1
Payment procedures	10	Section 5.8.1
Accounting procedures	10	There were no findings
Advances/securities	2	There were no findings
Procedures for debts	12	Section 6.3

As regards IPARD III, under the audit scope of this system audit engagement were the following internal control framework components:

- Control environment:
- Risk assessment:

According to the results of risk assessment performed, the AA decided that during 2024 all bodies of the MCS for IPARD III will be subject to system audit: Management structure (Accounting Body and NAO Support Office), Managing Authority and IPARD Agency. The auditors 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. Verifications made by AA in MS, MA and IA in respect of this system audit are as follows:

- The AA verified commitment to integrity and ethical values of IPARD bodies;
- The AA verified management's oversight performing of the development and performance of internal control;
- The AA verified establishing structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives;
- The AA verified the IPARD body's commitment to attract, develop, and retain competent individuals in alignment with objectives;
- The AA verified whether IPARD body's defines clear roles and responsibilities and holds individuals accountable for the performance of internal control responsibilities;
- The AA verified whether objectives specified with sufficient clarity to enable the identification and assessment of risks relating to objectives;
- The AA verified risk management in IPARD bodies;
- The AA verified whether IPARD bodies consider the potential for fraud in assessing risks to the achievement of objectives;
- The AA verified identifying and assessing changes that could significantly impact the internal control system.

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<sup>17</sup> Annex 2 to the Guideline No 3

Auditors have reviewed written procedures which are connected to the ICF requirements within the audit scope (HR, Irregularities, Risk management, Internal audit, reporting, etc.). Auditors have checked whether the requirements set out in the Agreements, in the IPARD Programme and in the List of eligible expenditure are incorporated in the procedures of the relevant entities of the MCS.

Even though audit scope consisted of Control environment and Risk assessment, auditors have reviewed additional parts of written procedures related to control activities which are linked to the ambiguities and omissions identified in the decrees, IPARD program, public calls, etc., for which findings arose. Therefore, auditors have checked the setup of the system, while a detailed review of procedures related to control activities as well as functioning of the system will be checked in the following system audits and audits of operations, where new issues and findings may arise.

Taking into consideration the initial phase of implementation of IPARD III, where no contracts have been signed yet, AA audited Control environment and Risk assessment. Given the fact that there are no differences in the internal control framework in the IPARD bodies between IPARD II and IPARD III, the Audit Authority's assessment of the ICF is the same for both programmes. Therefore, in the text below as well as in the Annex 1 Evaluation of the ICF to this report, AA presented one assessment for both programmes per IPARD bodies and functions as well as one overall conclusion on the ICF.

**The AA confirmed that ICF “Works”**, but improvements are necessary related to the issues presented in the recommendations below, in the section 5.8.1 and 6.3 of this report as well as in Annex 6 to this report which presents Audit report with findings and recommendations for system audit for IPARD III programme. In order not to duplicate the presentation of the findings, in this part AA will made only a reference to relevant finding.

The assessment was made by evaluating, for each function, the compliance with the requirements for each component of the ICF.

Assessment for the IPARD Agency:

- **Validation and authorisation – administrative controls**
  - **Findings related to dual purpose testing of operational transactions for IPARD II are presented in section 5.8.1 of this Report as follows:**
    - 
    - 1. Control deficiency and irregularity with suspicion on fraud regarding application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43)
    - 2. Deficiencies related to recipient with Application ID 21 03 3 0006 (Contract reference 09 90821 224469)
    - 3. Deficiencies related to Recipient under application ID No. 21-01-7.1-0002 (Contract no. 09-908/21-11797/39)
  - **Findings related to system audit of IPARD III are presented in Annex 6 to this report:**
    - 1. Inadequately defined rule of origin (Part 4.5)

2. Insufficiently clearly defined procedure (Part 4.6)
3. Discrepancy within IPARD III programme as well as between the IPARD III Programme and Decree for IPARD III (Part 4.7)

Assessment:

Considering findings described, the AA concluded that all risks are addressed to some extent by controls which may not always operate as intended and consequently the AA assessed this ICFR as **“Works partially” with the score 2.00.**

- **Validation and authorisation – on-the-spot controls**

- **Findings related to dual purpose testing of operational transactions for IPARD II are presented in section 5.8.1 of this Report as follows:**

1. Control deficiency and irregularity with suspicion on fraud regarding application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43)
2. Deficiencies related to recipient with Application ID 21 03 3 0006 (Contract reference 09 90821 224469)
3. Deficiencies related to Recipient under application ID No. 21-01-7.1-0002 (Contract no. 09-908/21-11797/39)

Assessment:

Considering findings described in the section 5.8.1, the AA concluded that all risks are addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently the AA assessed this ICFR as **“Works” with the score 2.95.**

- **Execution of payments**

Findings:

There were no findings.

Assessment:

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

- **Accounting**

Findings:

**Finding related to audit of accounts is presented in Section 6.3 to this Report:**

1. *Deficiency in compiling Balance sheet*

Assessment:

Considering described finding, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this ICFR as **“Works well” with the score 3.70.**

- **Advances and securities**

Findings:

There were no findings.

Assessment:

Considering that there wasn't any finding, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this ICFR as **“Works well” with the score 4.00.**

- **Debts management**

- **Findings related to system audit of IPARD III are presented in Annex 6 to this report:**

1. \_Deficiency in irregularity management process (Part 4.10)

**Finding related to audit of accounts is presented in Section 6.3 to this report:**

1. Deficiencies in compiling Annual declaration of accounts (D2)

Assessment:

Considering presented findings, AA concluded that all risks are addressed to some extent by controls which may not always operate as intended and consequently the AA assessed this ICFR as **“Works partially” with the score 2.00.**

- **Internal audit**

- **Findings related to system audit of IPARD III are presented in Annex 6 to this report:**

1. Shortcomings in procedures of Internal audit Department of EU funds (Part 4.15)
2. Lack of staff Internal audit Department of EU funds (Part 4.16)

Assessment:

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

**Other findings for IA regarding compliance with the requirements of the internal control components Control environment and Risk assessment which are presented in Annex 6 to this Report are:**

1. Insufficient staff in the IPARD Agency (Part 4.8)
2. Non-appointment of internal control coordinators (Part 4.9)
3. Inadequate Organizational chart in Manual of procedures (Part 4.19)

**Assessment for the NAOSO:**

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

**Findings related to system audit of IPARD III are presented in Annex 6 to this report:**

1. Non - Updated Decision on appointment of persons in indirect management of EU pre-accession funds (Part 4.1)
2. Absence of a management information system (Part 4.2)
3. Non-existence of an anti-fraud strategy (Part 4.3)
4. Deficiency in irregularity management process (Part 4.10)
5. Insufficient staff in the Management Structure (Part 4.11)
6. Inconsistencies in Decree for IPA III (Part 4.13)
7. Absence of KPI – Key performance indicators (Part 4.14)

**Findings related to verification of management declaration is presented in Section 7.3 to this report:**

1. Deficiencies in the issued AMD for IPARD II and IPARD III programme

*Considering findings described findings, the AA concluded that all risks are addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently the AA assessed this ICFR as **“Works” with the score 2.85.***

**Assessment for the NF/AB:**

Findings:

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

Assessment:

*Even though there wasn't any finding, based on professional judgment, the AA concluded that all risks are addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently the AA assessed this ICFR as **“Works” with the score 3.14.***

- **Paying functions – Authorisation and control of payments**

Findings:

*There were no findings.*

Assessment:

*Even though there wasn't any finding, based on professional judgment, the AA concluded that all risks are addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently the AA assessed this ICFR as **"Works" with the score 3.42.***

- **Paying functions – Accounting for commitment and payment**

Findings:

**Finding related to audit of accounts is presented in Section 6.3 to this report:**

1. *Shortcoming related to recording interest in General ledger*

Assessment:

*Considering finding described in the section 6.3 of this report, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently AA assessed this ICFR as **"Works" with the score 3.14.***

- **Paying functions – Debt management**

Findings:

**Finding related to audit of accounts is presented in Section 6.3 to this report:**

- 1) *Deficiencies in compiling Annual declaration of accounts (D2)*

Assessment:

*Based on the finding presented, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently AA assessed this ICFR as **"Works" with the score 3.00.***

- **Paying functions – Treasury**

Findings:

*There were no findings.*

Assessment:

Considering that there wasn't any finding, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this ICFR as **"Works well" with the score 3.71.**

**Other findings for AB/NF regarding compliance with the requirements of the internal control components Control environment and Risk assessment which are presented in Annex 6 to this Report are:**

1. Insufficient staff in the Management Structure (Part 4.11)

**Assessment for the Managing Authority:**

- **Managing functions**

Findings:

**Findings related to system audit of IPARD III are presented in Annex 6 to this report:**

1. Inadequately defined common eligibility criteria (Part 4.4)
2. Inadequately defined rule of origin (Part 4.5)
3. Discrepancy within IPARD III programme as well as between the IPARD III Programme and Decree for IPARD III (Part 4.7)
4. Non-appointment of internal control coordinators (Part 4.9)

Assessment:

Considering presented findings, the AA concluded that all risks are adequately addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently AA assessed this ICFR as "Works" with the score 3.20.

- **Implementing functions**

**Findings related to system audit of IPARD III are presented in Annex 6 to this report:**

1. Insufficiently clearly defined procedure (Part 4.6)

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 2.83.

**Other findings for MA regarding compliance with the requirements of the internal control components Control environment and Risk assessment which are presented in Annex 6 to this Report are:**

1. Deficiencies related to AWP and WLA (Part 4.12)
2. Absence of whistleblowing procedure (Part 4.18)

**4.5. Indicate as to whether any problems identified were considered to be of a systemic character, details of the measures taken, including a quantification of the irregular expenditure and any related financial adjustments/corrections made**

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

1. Control deficiency and irregularity with suspicion on fraud regarding application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43)
2. Deficiencies related to recipient with Application ID 21 03 3 0006 (Contract reference 09 90821 224469)
3. Deficiencies related to Recipient under application ID No. 21-01-7.1-0002 (Contract no. 09-908/21-11797/39)

However, AA considers that there were no findings of systematic character.

#### 4.6. Information on the follow up of audit recommendations from system audits from previous years

AAAR	Finding	Follow-up January 2025
<b>Findings and recommendations identified during system audit from final reports issued on 22nd February 2024 – No. 3011-1-06-143 including relevant management response.</b>		
<p>1.</p> <p>Refer to System audit Final report (22/02/2024)</p> <p>4.1.</p>	<p><b>Deficiencies in design of procedures and conducting ex-post checks.</b>  <b>Level of priority: Major</b>  <b>Body/ies concerned by the finding: IPARD Agency</b>  ICFR 3. Control activities  (a) Selection and development of control activities  – ensuring that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organisation  (c) Policies and procedures related to control activities  – ensuring that written policies and procedures exist establishing what is expected at all levels and specifying detailed actions  According to the Art. 14, paragraph (3) and (4) of Sectoral Agreement The ex-post verifications shall be carried out within five years of the date of final payment to the recipient. All investments shall be checked at least once during the five-year period. The ex-post verifications, carried out throughout the five-year period, shall be based on an analysis of the risks and financial impact of different operations, groups of operations or measures.  Audit Authority conducted detailed test of design and compliance testing of ex-post controls by IA. Some deficiencies in design of procedures and conducting of controls have been identified, which can impact efficiency and effectiveness of controls by controllers and verifications by auditors.  Namely, according to the Manual for work in the Department for on-the-spot control for rural development measures, Annex DP-DOSCRDM-03 - 01 Methodology for performing analysis of risk for conducting ex-post on the spot verification:  - During the first year after payment at least 50% of paid projects in previous year will be checked.  - During the second year at least 25% of the paid projects which were not controlled in the first year of ex-post verification will be checked.  - During the third year at least 13% of the paid projects which were not controlled in the first and second year of ex-post verification will be checked,  - During the fourth year at least 7% of the paid projects which were not controlled in the first, second and third year of ex-post verification will be checked.  - During the fifth year the rest of all paid projects which were not controlled in the previous years of ex-post verification will be checked (recipients which have a lower risk score, recipients which haven't been controlled in previous year for some reasons)</p>	<p><b>Closed</b></p> <p>Based on received evidence from the IA, AA notes that additional ex-post have been conducted and thus, this finding as closed</p>

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

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

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

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




AA recommends IA:


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

**AA reply 2024:**

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

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

	<p>3. As for the third recommendation, AA considers that the checklists for ex-post control should be further simplified. Approved exception refers only to part of construction. Therefore, implementation of the recommendation will be further monitored.</p>	
<p>2,  Refer to System audit Final report (22/02/2024)  4.2</p>	<p><b>Deficiencies in security control</b> <b>Level of priority: Major</b> <b>Body/ies concerned by the finding: IPARD Agency</b> ICF requirement 3 (b) Security control activities</p> <ul style="list-style-type: none"> <li>- ensuring adequate security procedures (IT and otherwise) that assets and data are kept secure from unauthorized interference and physical damage</li> <li>- ensuring that appropriate access rights are in place both in terms of physical access and electronic access at all levels</li> </ul> <p>In the previous period, all computers within the IPARD Agency (hereinafter: IA) had been joined to the gov.me domain, and their administration was the responsibility of the Ministry of Public Administration (the Ministry responsible for overall security, administration and domain, hereinafter: Ministry). However, in August 2022, the public administration suffered a significant cyber-attack. After the event, by raising the local domain (ap.local), all computers within IA were formatted with the new OS and joined the new domain, with which IA took over their administration.</p> <p>Although the Information System of the IA is physically separated from the Ministry, the IA website, e-mails and certain services, as well as Internet access remained directed towards the information system of the Ministry. However, Audit Authority (hereinafter: AA) noted that during cyber-attack, since IA website and e-mails were unavailable, there were delays in the publication of public invitations and invitations to offers. During system audit, the AA noted significant improvements in Information system security following the cyber-attack, however, the auditors also identified the following deficiencies:</p> <ul style="list-style-type: none"> <li>- The operating systems on the application and database servers are not upgraded to the latest version (e.g. the application server has Microsoft Windows Server 2012 R2 Standard, version: 6.3.9600 Build 9600 for this OS EOL is 10th October 2023),</li> <li>- There is no maintenance agreement or service level agreement for the application servers,</li> <li>- Security patches of VMware ESXi hypervisor and vCenter server after the cyber-attack was not carried out (VCSA is on version 6.7.0.50000, as of 2021-09-21, VMware has officially declared vSphere 6.7. x (ESXi 6.7) as End of General Support starting from 15th October 2022)</li> <li>- Although certain measures are in place, IS vulnerability assessment and penetration testing have not been performed until now, which gained importance after the event,</li> <li>- the firmware was also not updated, it remained on the versions on which it was initially installed, etc.</li> </ul> <p>As regards segregation of duties between the information security officer (ISO) and Head of IT department, AA noted that according to the Rulebook on internal organisation and systematisation, ISO is defined as a separate position, responsible to the Head of IA. The position is filled and the ISO operates in accordance with the employment decision. However, AA determined that the IA has not updated the Job descriptions, where it still states that ISO reports to the Head of IT Department, and the Substitution Plan where it is envisaged that ISO can be substituted by the Head of IT department.</p>	<p><b>Open</b></p> <p>By analyzing the IA`s response and submitted evidence, AA notes that IA started upgrading the operating systems on application and database servers. According to the evidence from February 2025, 24 virtual machines have been upgraded to Windows Server 2022 Operating System, while 20 virtual machines have still Microsoft Windows Server 2012.</p> <div style="text-align: center;">  <p>Novi vCentar - Svi serveri.png</p> </div> <div style="text-align: center;">  <p>Stari vCentar - Svi serveri.png</p> </div> <p>AA received a Report from the electronic system for monitoring all contracts under the jurisdiction of the IT Directorate. From the Report, AA notes that two applications have maintenance contract.</p> <div style="text-align: center;">  <p>ugovori aktuleni.PNG</p> </div> <p>Applications that currently do not have a maintenance contract are the Register of Agricultural Farms, and the Agricultural Parcel Identification System (SIZEP). The procurement has been unsuccessfully advertised several times. The fourth call for SIZEP is currently underway and can be viewed on the CeJN website. <a href="https://cejn.gov.me/tenders/view-tender/82315">https://cejn.gov.me/tenders/view-tender/82315</a></p> <p>As regards security patches, after the installation of new server equipment, a new VMware environment with VSCA (vCenter Server Appliance) version 8.0.3 was set up.</p>

<p>Additionally, AA noted that IA does not fulfil some of the work responsibilities derived from version 2.3 of the procedures. Namely, ISO does not prepare the quarterly report on the information security and does not present the security controls for minimize potential risks, which is one of the responsibilities defined in the Manual of procedures, v.2.3. Further, annexes such as DP-IT-00-24 - Monitoring table, DP-IT-00-25 - Maintenance - IT sector, DP-IT-00-26 - Maintenance – Support, DP-IT-00-16-Technical Acceptance, etc. are not fulfilled regularly or are not fulfilled at all.</p> <p>AA also noted that formalised version of procedures 2.3 does not include all requirements which are necessary for achieving and maintaining compliance with ISO 27002 and thus, additional policies, procedures, instructions remain to be prepared.</p> <ul style="list-style-type: none"> <li>- Cyber security measures should be applied on all platforms, applied in the corporate environment and in the ecosystem created in the cloud, bearing in mind that security must be adapted to the needs of operations. Therefore, among others, AA recommends IA to: <ul style="list-style-type: none"> <li>o Upgrade the operating systems on the application and database servers,</li> <li>o Ensure maintenance agreement or service level agreement for the application servers,</li> <li>o Regularly implement and update security patches,</li> <li>o Perform vulnerability assessment and penetration testing, in order to identify, quantify and prioritize the vulnerabilities in the system as well as to evaluate the security of system,</li> <li>o Regularly update firmware on servers, storage devices, etc.</li> </ul> </li> <li>- IA has an official version of procedures, Manual for IT, v.2.3. and AA considers that IA should operate according to it. Therefore, AA recommends IA to prepare appropriate documents in accordance with Rulebook on internal organisation and systematisation and to fulfil work responsibilities arising from formalized procedures (v.2.3).</li> <li>- AA considers that IA Manual of procedures version 2.3 (Access control policy, Information Security Policy, Manual for IT sector and Physical Control) which has been adopted in September 2021 needs updating and additional complementation to align with ISO 27002 requirements.</li> </ul> <p><b>AA reply 2024:</b> Implementation of the recommendation will be further monitored</p> <ul style="list-style-type: none"> <li>- As regards information security officer (ISO), according to the Rulebook on internal organisation and systematization and new job description, ISO is defined as a separate position, responsible to the Head of IA. However, the new Substitution Plan still envisages that ISO can be substituted by the Head of IT department.</li> <li>- As regards the part related to procedures, IA adopted new procedures in line with ISO 27002. Therefore, this part of recommendation is outdated.</li> </ul>	<div style="text-align: center;">  <p>Novi vCenter - Verzija VMware vSp1</p> </div> <p>Most servers have been migrated to the new environment. However, Virtual machines running on Windows Server 2012 OS are still running on the old VSCA 6.7.0.</p> <ul style="list-style-type: none"> <li>- IS vulnerability assessment and penetration testing have not been performed until now</li> <li>- As regards firmware, no further evidence was submitted</li> <li>- As regards information security officer (ISO), according to the Rulebook on internal organisation and systematization and new job description, ISO is defined as a separate position, responsible to the Head of IA. However, the new Substitution Plan still envisages that ISO can be substituted by the Head of IT department.</li> <li>- As regards the part related to procedures, IA adopted new procedures in line with ISO 27002. Therefore, this part of recommendation is outdated.</li> </ul> <p>Given the nature of the finding itself, which touches on the common management system for IPARD II and IPARD III, AA will monitor the implementation of the recommendation are report through follow-up in AAAR for IPARD III.</p>

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

<p>Refer to System Audit Final report (30/01/2023)</p> <p><b>4.1.2</b></p>	<p><b>Insufficiently defined procedures regarding underpayments</b>  <b>Level of priority: Intermediate</b>  <b>Body/-ies concerned by the finding: IPARD Agency</b>  ICFR 3 (c) Policies and procedures related to control activities that written policies and procedures exist establishing what is expected at all levels and specifying detailed actions.  According to the Annex 2 - Error evaluation of the DG AGRI's Guideline No 2, underpayments are considered as formal errors. Underpayment as formal error presents failure of controls without financial effect (the payment, debt/irregularity and/or the balance of the IPARD Euro account is actually correct as to its amount).  During testing procedures, the AA auditors identified insufficiently defined procedures regarding underpayments within the Manual of procedures of Department for Authorization of Payments (DAP) version 2.3. Namely, chapter 5.4 Preparing Authorization letter and Decision for payment prescribes that DAP advisors prepare new Authorization letter and Decision for payment when underpayment is identified in order to pay correct amount to the Recipient but without prescribing necessary analysis how underpayment occurred, i.e. which control has failed, analysis of reasons why it happened as well as the actions which should be taken after identification of controls failure.  Furthermore, the AA auditors determined that manual does not clearly prescribe from which sources IA should pay underpaid funds considering fact that underpayment is a formal error and does not have financial impact which means that underpaid amount should not be paid from the EU funds.</p> <p>The AA recommends the following:</p> <ul style="list-style-type: none"> <li>• IA should more precisely describe procedures regarding underpayments, i.e. IA should prescribe steps in order to target failed controls, prescribe necessary analysis as well as the actions to ensure that such failures do not occur in the future.</li> <li>• IA should clearly define whether they obliged to pay underpaid amount to the recipients and accordingly define source of financing, considering the fact that underpayments are formal errors and they can not be paid from the EU funds.</li> </ul> <p><b>AA reply 2024:</b>  The implementation of the recommendation will be further monitored.  AA conclusion January 2024:  Partially closed  Exception to procedures was approved by Deputy NAO on May 2023 and according to it rules regarding underpayments have been introduced. However, by analyzing defined procedures, AA noted that they are not in line with the Guideline No 2. since they envisage that calculated amount which will be recovered to recipient will be 75% EU and 25 % national part, while according to the Guideline, underpayments are formal errors and do not have financial impact which means that underpaid amount should not be paid from the EU funds.</p>	<p><b>Closed</b>  AA notes that NAO adopted exception from procedures on 11/3/2024 and defined that underpayments shall be recovered from national budget. Therefore, AA considers this finding as closed.</p>
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*Findings and recommendations identified during system audit from final report issued on 10<sup>th</sup> February 2021 – No.3011-1-06-88 including relevant management response*

<p>1.</p> <p>Refer to System Audit Final report (10/02/2021)</p> <p>4.1.1</p>	<p><b>Inadequate recording and reporting of irregularities</b>  <b>Body-ies concerned: IPARD Agency</b>  <b>Level of priority: Intermediate</b>                  ICF requirement 2. (c) IPA body should ensure that irregularities noted lower down in the organisation are reported appropriately and followed-up, including protection for "whistle-blowers".                  During compliance testing and review of IPARD Agency documentation, we have identified following deficiencies:</p> <ul style="list-style-type: none"> <li>- <b>Non-compliance of Manual of irregularity with Guidelines on irregularity management issued by AFCOS Office of Montenegro</b> (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"> <li>o Date of the first information leading to suspicion of irregularity;</li> <li>o Source of first information;</li> <li>o Date of verifying Irregularity Alert Form;</li> <li>o Description of suspicion of irregularity;</li> <li>o Temporary measures for protection of financial interests;</li> <li>o Initiated procedure for irregularity identification;</li> <li>o Suspicion of fraud;</li> <li>o Established irregularity;</li> <li>o Date of issuing Conclusion on established irregularity / non-existence of irregularity;</li> <li>o Report included in IMS system;</li> <li>o Reference number in IMS system;</li> <li>o Breached provisions of European Union law;</li> <li>o Conducted control through which irregularity was identified;</li> <li>o Description of irregularity;</li> <li>o Date of closing the case;</li> <li>o Institutions informed on the irregularity;</li> <li>o Remarks.</li> </ul> </li> </ul> <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> <ul style="list-style-type: none"> <li>- <b>Non-completion of Irregularity alert form according to Guidelines</b> - According to Guidelines Implementing agency <b>immediately</b> assessed truthfulness of received information on suspected irregularity. Depending on whether further investigation is needed, the Agency should fill in the</li> </ul>	<p><b>Open</b></p> <p>Analyzing the relevant documentation related to irregularities, a large gap is still observed from the moment of receiving information about the existence of suspicious on irregularities to its determination.                  Furthermore, certain delays are noticed regarding reporting in IMS.                  AA explained in more details for every open case in the Register of Irregularities/IMS in the AAAR, section 5.17.                  The importance of this process for the overall functioning of the system has increased the level of priority of the finding to <b>major</b>.</p> <p>AA will monitor implementation of this recommendation and report in AAAR for IPARD III.</p>
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envisaged space “further proceeding point A or B” in Irregularity Alert Form (Annex 1 of Guidelines). Instead the IPARD Agency uses their form prescribed by Manual of irregularity (Report on suspected/detected irregularities – DP-01-01) which is not aligned with prescribed annex from Guidelines, and which employee fulfils within three days after discovery of the irregularity and submits it to IO. Also, IA doesn’t fulfil this report for every suspicion, but only for confirmed one which doesn’t provide adequate audit trail about all reported cases, initiated proceedings and relevant conclusions about it. At the same time, according to the Guidelines, IA should send every Irregularity alert form to the NAO, DMS, AFCOS and Head of MA which is not applied in practice.

- **Untimely reporting and inefficiency in proceeding irregularity cases** - Guidelines for the completion of the standard form for quarterly communications of irregularities in connection with the Instrument for Pre-Accession Assistance (IPA) issued by OLAF prescribe obligation for beneficiary countries within the IPA programme to report immediately to the Commission every irregularity as well as to undertake recovery proceedings. (Point 8, page 3). Also, according to Manual of irregularity (Chapter 9-Reporting irregularities, 9.1.1-Initial reporting) and Guidelines (Chapter VI-Reporting on identified irregularities, VI.2- Initial reporting) the Implementing agency immediately submits to AFCOS Office an initial report in the framework of IMS system. Therefore, during system audit certain delays were noted regarding cases recorded in Irregularity Register.  
Irregularities regarding these cases are confirmed and some of them submitted to AFCOS as following: 1) Recipient with ID No 0278 - irregularity noticed by AA report on 30<sup>th</sup> December 2019 confirmed by IA on 29<sup>th</sup> June 2020 and registered in AFCOS on 6<sup>th</sup> July 2020; 2) Recipient with ID No 0127 – irregularity noticed by AA report on 30<sup>th</sup> December 2020, confirmed by IA on 6<sup>th</sup> March 2020 and registered in AFCOS on 6<sup>th</sup> July 2020; 3) Recipient with ID No 0005 - irregularity noticed by AA on 4<sup>th</sup> March 2020 confirmed by IA on 17<sup>th</sup> June 2020 and registered in AFCOS on 6<sup>th</sup> July 2020; 4) Recipient with ID No 0228 - irregularity noticed by AA on 4<sup>th</sup> March 2020 confirmed by IA on 17<sup>th</sup> September 2020 and registered in AFCOS on 4<sup>th</sup> November 2020; 5) Recipient with ID No 0114 – despite rejection letter and decision for partial payment which contains information that part of investment is rejected due to irregularity, there is no report about irregularity and there is no confirmation by IA, neither was the case registered in AFCOS system; 6) Recipient with ID No 0125 – even though the AA recommended initiating investigation related to potential irregularity on 20<sup>th</sup> November 2019, there is no information about this case neither in registers, reports or other relevant documents and there hasn’t been any conclusion about it yet.
- **IPARD Agency doesn’t issue a Conclusion on irregularity in accordance with Guidelines (template from Annex 03)** – IPARD Agency doesn’t issue a conclusion on every suspected irregularity in line with the Guidelines (Annex 03), they draw conclusions on **identified** irregularities at sectoral meetings organized due to current cases of irregularities instead.
- **Incompleteness of the Irregularity register** – according to Guidelines (Annex 2 – Irregularity register) every suspicion of irregularity should be noted in the Irregularity register. However, IPARD Agency doesn’t adequately fulfil the Irregularity register, although there were reported suspicions of irregularities.

**Nonfulfillment of Table of deadlines** – According to Manual of irregularity (Chapter 7) there should be established the Table of deadlines where all deadlines should be monitored. During system audit it was determined that Table of deadlines was not filled in.

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

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

- Completion of the Irregularity Alert Form prescribed by Guidelines (Annex 01). In accordance with observations set out in point 2 of this finding, we recommend IPARD Agency to use the Irregularity Alert Form prescribed by Guidelines in order to have clear trail regarding every received information about suspected irregularity regardless of whether there was a need for further investigation upon it or not and to have recorded when proceedings for identifying the irregularity have been initiated as well, which cannot be concluded based on current form which IPARD Agency uses (DP-01-01). In addition, IA should inform all relevant stakeholders about suspicion of irregularity as prescribed by Guidelines.

- Efficient proceedings with irregularity cases – as it was stated in point 3 of this finding Guidelines (OLAF and AFCOS) prescribe obligation for IA to report immediately to the Commission every irregularity as well as to undertake recovery proceedings. Average time for reporting of irregularity (from the date of information leading to a suspicion to the date of IMS registration) is more than 3 months which could not be interpreted as immediately. IA should ensure more efficiency in this process and make efforts to immediately report every case to AFCOS.

- Issuing a Conclusion on irregularity – in order to meet requirements, set out in Guidelines, we recommend IPARD Agency to issue a Conclusion on irregularity (Annex 03) which would provide detailed description of irregularity cases.

- Completion of the Register of irregularities – regarding observations set out in point 5 of finding, we recommend IPARD Agency to record all cases in the Register of irregularities for which the suspicion of irregularities has been reported, for the purpose of easier monitoring of the further course of events related to these cases and prevention of the occurrence of irregularities or fraud.

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

Auditor's final conclusion:

Considering the IA reply and request for lowering the priority level, AA considers this level justified taking in account the importance of irregularity management and the fact that inadequate irregularity management which implies untimely recording of irregularities and long process from getting information about suspicion of irregularity to determining the irregularity may increase the possibility of fraud, which except financial can have a negative impact on the reputation of the IPARD program and call into question the whole process of allocating the funds. The pandemic has certainly slowed down the whole process, therefore the relatively long period from receiving information on suspected irregularities to determining the irregularities is partially justified,

	<p>except in cases when information on the existence of suspected irregularities was obtained in December 2019 which is almost three months before the first case of COVID was registered in Montenegro. Implementation of this recommendation will be further monitored.</p> <p><b>AA reply January 2024:</b> Partially closed</p> <p>Analyzing the relevant documentation related to irregularities, a large gap is still observed from the moment of receiving information about the existence of suspicious on irregularities to its determination. In order to accelerate this process, on October 5th, 2023, representatives of AA and AFCOS office held a meeting where it was decided to send a short summary (which audit is in question and a list of major and intermediate findings) of the final reports for all audits, in the shortest possible time, so that they would initiate activities with IA/DMS regarding the irregularities and in that way influenced the acceleration of the process of starting the procedure for determining the irregularities.</p> <p>Also, by reviewing the documentation, it was noticed that Reports on suspected/detected irregularity (DP-01-01) for each individual case was issued on the same day as Conclusions on irregularity, although the Report (DP-01-01) must be filled out immediately after receiving suspicions of the existence of irregularities. After filling in this form, the procedure for determining the irregularity begins, which includes the adoption of the Conclusion on the determined irregularity, which should be brought after 30 working days from the day of the start of the procedure for determining the irregularity). Furthermore, certain delays are noticed regarding reporting in IMS. The implementation of recommendation will be further monitored.</p>	
<p>2.</p> <p>Refer to System Audit Final report (10/02/2021)</p> <p>4.2.1</p>	<p><b>Lack of procedures for recording and monitoring of changes IA</b> <b>Body/-ies concerned: IPARD Agency</b> <b>Level of priority: Minor</b></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>We recommend the IA to improve the Manual of procedures by adding the obligation to register all occurred changes in one document in order to facilitate their monitoring.</p>	<p><b>Closed</b></p> <p>AA confirms that in Register are added all the occurred changes (key staff, program, decree, organizational change, etc. Updates are made regularly. This finding can be considered as closed.</p>

	<p><b>AA reply 2024:</b> Partially closed The AA determined that received annex included key staff changes as well as amendments on Decree for implementation of measures, but annex did not include all changes occurred during 2023. Namely, this annex does not contain adoption of IPARD II program v1.5 from October and v1.6 from December 2023. 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>	
<p><b>- Findings and recommendations identified during system audit from final report issued on 26th December 2019 – No 3011-1-06-418 including relevant management response.</b></p>		
<p>3.  Refer to System Audit Final report (26/12/2019)  4.6.3</p>	<p><b>Written procedures concerning responsibility of MA</b> <b>Body/-ies concerned: Managing Authority</b> <b>Level of priority: Intermediate</b> ICF requirement 4 (a) Information to support functioning of internal controls – ensuring that processes are in place at all levels to identify the information required and expected to support the functioning of the other components of internal control and the achievement of the organization's objectives According to the SA, Article 8, Functions and responsibilities of the Managing Authority, paragraph 2) b) MA is responsible for the selection of measures under each call for applications under the IPARD II Programme and their timing, the eligibility conditions and the financial allocation per measure, per call. The decision shall be made in agreement with the IPARD Agency. 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.  We recommend 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. Auditor's final conclusion:</p>	<p><b>Closed</b> As we can confirm from supporting documents that Managing Authority adopted updated procedures, this finding can be considered as closed.</p>

	<p>During interview we identified that IA was responsible for the selection of measures under each call for applications under the IPARD II Programme and their timing, the eligibility conditions and the financial allocation per measure, per call and MA just provided comments on it which is not in line with the provisions from SA. In addition MA should ensure adequate audit trail for performing responsibilities prescribed.</p> <p>The implementation of the recommendation will be further monitored.</p> <p><b>AA reply January 2024:</b> Partially closed</p> <p>Part of recommendation related to updating procedures in line with requirements from Sectoral Agreement is not implemented yet, since MA did not update the procedures, only a draft version is prepared.</p>	
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<b>Findings and recommendations identified during system audit final report issued on 21st January 2019 – No. 3011-1-06-389/3 including relevant management response</b>		
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<p>1. Refer to System Audit Final report (21/01/2019) 4.10.1</p>	<p><b>Inadequate sources for calculation of Reference price</b> <b>Body/-ies concerned: IPARD Agency</b> <b>Level of priority: Intermediate</b></p> <p>According to the Manual of procedures for work in the Reference price database it is prescribed:</p> <ul style="list-style-type: none"> <li>o In order to determine the reference price, there must be a minimum of 3 comparable prices.</li> <li>o The "Reference prices database" should contain data from the following sources: <ul style="list-style-type: none"> <li>• Submitted invoices from the IPARD Programme, MIDAS Project (grant scheme) or the other national measures for rural development</li> <li>• Prices (from invoices) will be entered after investment is finalized</li> <li>• Market research.</li> </ul> </li> </ul> <p>By the insight into the RPD, 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 <b>and influences on reliability of reference price.</b></p>	<p><b>Closed</b></p> <p>According to the approved exception from 26.12.2024. IA requested exception that all items, i.e. offers that were submitted with Request for granting support within 1<sup>st</sup> Public Call, Measure 1, are analysed through the evaluation of the Evaluation Committee. Having in mind closure of the IPARD II programme this recommendation can be considered as closed.</p>
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We recommend the following:

- including an additional condition in RPDB that the RP cannot be calculated if prices are not from minimum two, preferably three suppliers for particular product, in order to reduce one supplier's influence and to have more reliable reference prices. This could be achieved by removing type and model criteria from the RPD, leaving detailed comparable technical specification.

- increasing the number of prices, and fulfilling the RPD with prices collected from other sources of data collection as defined in the Manual for work in the Reference price database so the reference price for each entered product/item can be calculated and be more reliable

Auditor's final conclusion: AA consider that assurance, related to the reliability of prices, presented by auditee is not adequate for the purpose of comparability of prices. Comparability is ensured when there are, at least two, but preferably three different sources/suppliers for calculation of the price and cannot be ensured if all prices are from the same supplier.

According to the entrusted procedures and documents, Department for Publicity and Authorisation of Projects is responsible for conducting market research as a base for RPD. It is up to auditee how to organize fulfilment of prescribed obligation and to act according result of WLA and capacity needs for the purpose of market research.

The fact that the RPD calculate reference price for exact model and type during contracting phase, can lead to the situation that recipient will not purchase that model and type, because in the transparent procurement procedure it is not allowed to precise model and type, but technical specification instead and supplier can provide different type and model with the same technical specification, which were not subject of control in RPD.

The implementation of the recommendation will be monitored.

Auditor's final conclusion: AA considered IA answer and concluded that updating of the RPDB represent constant progress, but the main deficiencies are still there.

The implementation of the recommendation will be monitored.

**AA reply January 2024:**

Partially closed

Based on reply and submitted evidence from IA, AA notes that RPD contains 2148 verified prices with valid dates and there are 173 products with calculated reference price. During AA audit work for FY 2023, there were no cases where RPD is used. According to IA, RPD is

	<p>being used for Fifth Public Call for Measure 1, however, AA could not check this statement because this public call was not subject of audits in FY 2023. Therefore, in order to get a clearer picture of the implementation of the recommendation, the AA will monitor the improvements of the RPD in the future.</p>	

#### **4.7. Description (where applicable) of specific deficiencies related to the management of financial instruments, detected during system audits and of the follow-up given by the national authorities to remedy these shortcomings**

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

#### **4.8. Level of assurance obtained following the system audits and justification**

According to Guideline No 2, Section 6.5, the overall conclusion on the ICF shall be derived from the assessment of the design and existence of controls and the evaluation of effectiveness of the implementation of the ICF, i.e. from the audit work related to review of the internal control framework, compliance testing as well as substantive testing.

As for IPARD II programme, AA conducted compliance testing of ex-post controls and compliance and substantive testing of operational transactions. For IPARD III, considering the initial phase of implementation with no contracts signed yet, AA conducted system audit of ICF components Control environment and Risk assessment. Auditors have reviewed written procedures which are connected to the ICF requirements within the audit scope (HR, Irregularities, Risk management, Internal audit, reporting, etc.). Auditors have checked whether the requirements set out in the Agreements, in the IPARD Programme and in the List of eligible expenditure are incorporated in the procedures of the relevant entities of the MCS. Even though audit scope consisted of Control environment and Risk assessment, auditors have reviewed additional parts of written procedures related to control activities which are linked to the ambiguities and omissions identified in the decrees, IPARD program, public calls, etc., for which findings arose. To generate a general conclusion/Assessment of ICF per body, assessment of inter alia, control activities is necessary. Since AA have checked only the setup of the system, without a detailed review of procedures related to control activities as well as functioning of the system, it is not possible to prepare the matrixes for IPARD III. Considering the common management and control system for both programmes, AA has presented the audit work for both programmes in one matrix for each of the bodies of the MCS.

The overall conclusion on the ICF is presented in the following matrixes<sup>18</sup>:

#### **IPARD Agency**

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<sup>18</sup> Presented in Annex 1 to this Report

MATRIX - Assessment of the ICF (IPARD AGENCY) - <b>IN CASE OF NO DELEGATED BODIES AND YES ADVANCES</b>																							
Assessment Component/ Procedure	Control environment									Control activities					Information and Communication**		Monitoring of the internal control framework				Evaluation at assessment criteria		General conclusion
	Organisation			Human Resources			Delegation			Risk management		Control activities		IT Security			Monitoring		Internal audit				
	Weighting / Scoring	S	T at 15%	S	T at 5%	S	T at 5%	S	T at 5%	S	T at 50%	S	T at 10%	S	T at 5%	S	T at 5%	S	T at 5%	W	T	Weighted total	
Operations	Validation and authorization ***	3	0,45	2	0,10				3	0,15	2	1,00	3	0,30	3	0,15	3	0,15	3	0,15	20%	2,00	0,40
	Administrative controls	3	0,45	2	0,10				3	0,15	3	1,50	3	0,30	3	0,15	3	0,15	3	0,15	20%	2,95	0,59
Payments	Execution of payments	4	0,6	3	0,15				3	0,15	4	2	3	0,3	4	0,2	3	0,15	3	0,15	15%	3,70	0,56
	Accounting	4	0,6	3	0,15				3	0,15	4	2	3	0,3	4	0,2	3	0,15	3	0,15	15%	3,70	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	3	0,15				3	0,15	2	1	3	0,3	2	0,1	2	0,1	3	0,15	20%	2,00	0,40
LEGEND:																			General conclusion		2,87		
																			Assessment of ICF		works (medium impact)		
																			1 to 1,5 = not working				
																			1,51 to 2,5 = working partially (significant impact)				
																			2,51 to 3,5 = works (medium impact)				
																			3,51 above = works well (minor impact)				

Overall conclusion on the ICS in IPARD Agency, based on the results of system audit, is Works (medium impact) with the score of 2.87.

### National Fund/ Accounting Body

#### Matrices -Accounting body

MATRIX - Assessment of the ICF (ACCOUNTING BODY)										
Assessment component/ Procedure	Control environment			Risk management	Control activities		Information and communication **	Monitoring of the internal control framework		
	Organisation	Human resources	Delegation		Control activities	IT Security				
Managing functions	Management of IPA II accounts and financial operations	4	3	n/a	3	3	2	3	4	
Paying functions	Authorisation and control of payments	4	2	n/a	4	4	2	4	4	
	Accounting for commitment and payment	4	2		3	3	2	4	4	
	Debt management	4	3	n/a	3	3	2	3	3	
	Treasury	4	4	n/a	4	4	2	4	4	
Overall average								3,285714286		

LEGEND:				
1	to	1,5	=	not working
1,51	to	2,5	=	working partially (significant impact)
2,51	to	3,5	=	works (medium impact)
3,51	above		=	works well (minor impact)

Overall conclusion on the ICS in National Fund, based on the results of system audit, is Works (medium impact) with the score of 3.28.

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	3	3	n/a	3	3	2	3	3	

Overall average 2,857142857

<b>LEGEND:</b>				
1	to	1,5	=	not working
1,51	to	2,5	=	working partially (significant impact)
2,51	to	3,5	=	works (medium impact)
3,51	above		=	works well (minor impact)

Overall conclusion on the ICS in NAO Support Office, based on the results of system audit, is Works (medium impact) with the score of 2.85.

**Managing Authority**

ANNEX 1 - Matrices - IPARD MA Template

MATRIX - Assessment of the ICF (IPARD MANAGING AUTHORITY)					
Assessment component* Procedure	Control environment			Information and communication**	
	Organisation	Human resources	Delegation		
Managing functions	Selection of measures	3	3	n/a	3
	Programme monitoring	3	3	n/a	3
	Evaluation	4	2	n/a	4
	Reporting	3	3	n/a	4
	Coordination	3	3	n/a	4
Implementing functions	Publicity	3	2	n/a	3
	Verifiability and controlability of measures	3	3	n/a	3

Overall average 3,095238095

<b>LEGEND:</b>				
1	to	1,5	=	not working
1,51	to	2,5	=	working partially (significant impact)
2,51	to	3,5	=	works (medium impact)
3,51	above		=	works well (minor impact)

Overall conclusion on the ICS in Managing Authority, based on the results of system audit, is Works (medium impact) with the score of 3.09.

## 5. AUDITS OF SAMPLES OF TRANSACTIONS

### 5.1. Identification of authorities/bodies that carried out the audits of operations, including the Audit Authority.

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

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

Body	Name	Position	Experience in audit		Type of appointment: permanent (P) or temporary (T)	Chartered accountant / certified auditor	Type of audit work carried out by the body/person
			General	IPARD			
AA	Rina Mučaj Demirović	Authorized Auditor / Head of Department for audit of the program of agricultural and rural development	12 years and 9 months	11 years and 9 months	P	Certified auditor/ State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Marko Tomčić	Authorized Auditor	6 years and 11 months	6 years and 11 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Marija Perović	Authorized Auditor	8 years and 3 months	8 years and 3 months	P	Certified auditor/ State auditor	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Luka Miranović	Senior Auditor	3 year and 10 months	3 year and 10 months	P	N/A	ICFR 3(a) – compliance, performing substantive testing on the sample transactions
	Ksenija Krsmanović	Junior Auditor	5 months	5 months	P	N/A	ICFR 3(a) – performing substantive testing on

							the sample transactions
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Audit of operations was conducted for expenditure declared under IPARD II programme. For IPARD III programme there were no contracts signed yet, accordingly no expenditure declared to the EC under IPARD III.

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

**5.2.1. Operational transactions**

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

Overall population, identified by the AA from which the substantive testing sample were drawn, contains all final and interim payments made by IPARD Agency to the recipients, included in the annual declaration for the financial year 2024. There were 320 final payments and 27 interim payments from IPARD Agency to recipients, in total gross amount of EUR 11.664.945,00€ (EU part). Considering number of payments and requirements prescribed in Guideline 2, for substantive testing of operational transactions, the AA used non-statistical sampling method using IDEA software in order to have randomly chosen sample. For the purpose of the non-statistical sampling, the sampling unit is a single payment made by the IPARD Agency to the recipient.

Considering both, the correct timing of the different audit steps and the need to perform the audit in a timely and efficient manner, the AA decided to use possibility of drawing sample in three stages, in line with point 7.1.4.1 of Guideline no.2. The first sample was drawn from the quarterly Declarations covering the first two quarters (D1 Q1 and D1 for Q2) of FY 2024, the second sample was drawn from Declaration of third quarter (D1 for Q3) and third sample was drawn at the beginning of the year 2025 from the Declaration of the last, fourth quarter (D1 for Q4).

For calculating the sample, the AA followed Guideline 2, point 7.1.3.1 and based on submitted D2 and accompanying Lists of payments by NAO to the EC which contain a total of 347 final and interim payments as well as overall assessment of ICF of the IPARD Agency from previous year assessed as “Works”, the AA determined that the minimum sample size should be 20%, i.e.  $347 * 20\% = 69,4$ , and accordingly, AA sampled 70 transactions. The AA decided to treat all final and interim payments in the year under all measures as one single population and not to use stratified approach. In addition, the AA didn’t treat any transaction as a high value item.

First sample was drawn from population which contains expenditures declared (list of payments) in Q1 and Q2 of FY 2024, a total of 66 final payments and 11 interim payments in amount of 2.254.483,99 € (EU part). The AA, using IDEA software, randomly chose 16 payments (15 final and 1 interim) in amount of 582.328,00 € (EU part). Sample is presented below:

No.	Application ID	Contract reference	Declared expenditure			
			Measure	Quarter	EU part	National part
	1	2	3	4	5	6
1	23-05-1-0063	09-908/23-8468/12	1	Q2	20.778,70 €	6.926,23 €
2	23-05-1-0347	09-908/23-16684/13	1	Q2	6.982,50 €	2.327,50 €
3	23-05-1-0099	09-908/23-13408/12	1	Q2	22.677,54 €	7.559,18 €
4	23-05-1-0393	09-908/23-16700/12	1	Q2	19.095,99 €	6.365,33 €
5	23-05-1-0050	09-908/23-12644/12	1	Q2	23.224,27 €	7.741,42 €
6	21-01-7.1-0042	09-908/21-12128/16	7	Q1	638,99 €	213,00 €
7	23-05-1-0074	09-908/23-13479/16	1	Q2	11.509,15 €	3.836,39 €
8	23-05-1-0220	09-908/23-16483/19	1	Q2	20.909,55 €	6.969,85 €
9	23-05-1-0034	09-908/23-12627/12	1	Q2	21.060,87 €	7.020,29 €
10	23-05-1-0340	09-908/23-16720/11	1	Q2	17.926,36 €	5.975,46 €
11	21-03-1-0020	09-908/22-19/36	1	Q2	51.539,18 €	17.179,73 €
12	23-05-1-0053	09-908/23-12658/13	1	Q2	26.849,64 €	8.949,88 €
13	22-04-1-0021	09-908/22-6408/43	1	Q2	59.187,17 €	19.729,06 €
14	23-05-1-0003	09-908/23-12501/13	1	Q2	7.637,98 €	2.545,99 €
15	21-03-3-0006	09-908/21-2244/69	3	Q2	263.110,16 €	87.703,39 €
16	23-05-1-0055	09-908/23-12665/10	1	Q2	9.199,95 €	3.066,65 €
Total:					582.328,00 €	194.109,35 €

Second sample was drawn from population which contains expenditures declared (list of payments) in Q3 of FY 2024, total of 102 final payments and 5 interim payments in amount of 2.925.003,91€ (EU part). The AA, using IDEA software, randomly chose 22 payments (20 final and 2 interim) in amount of 573.776,91 (EU part) €. Sample is presented below:

	Application ID	Contract reference	Declared expenditure
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No.			Measure	Quarter	EU part	National part
	1	2	3	4	5	6
1	22-04-1-0036	09-908/22-6476/35	1	Q3	24.404,47 €	8.134,83 €
2	23-05-1-0279	09-908/23-15767/18	1	Q3	23.225,75 €	7.741,92 €
3	23-05-1-0229	09-908/23-15333/19	1	Q3	25.594,70€	8.532,23 €
4	23-05-1-0306	09-908/23-16017/13	1	Q3	12.200,02 €	4.066,68 €
5	23-05-1-0166	09-908/23-14733/10	1	Q3	15.750,00 €	5.250,00 €
6	23-05-1-0215	09-908/23-16505/18	1	Q3	27.189,70 €	9.063,23 €
7	23-05-1-0061	09-908/23-13181/23	1	Q3	19.235,79 €	6.411,93 €
8	23-05-1-0158	09-908/23-16078/24	1	Q3	477,88 €	159,30 €
9	23-05-1-0291	09-908/23-15374/26	1	Q3	19.580,85 €	6.526,95 €
10	23-05-1-0056	09-908/23-12667/14	1	Q3	13.807,50 €	4.602,50 €
11	23-05-1-0135	09-908/23-14361/15	1	Q3	8.128,98 €	2.709,66 €
12	23-05-1-0051	09-908/23-12651/17	1	Q3	19.235,79 €	6.411,93 €
13	23-05-1-0179	09-908/23-15622/16	1	Q3	21.549,87 €	7.183,29 €
14	23-05-1-0108	09-908/23-15001/19	1	Q3	55.517,73 €	18.505,91 €
15	23-05-1-0266	09-908/23-16449/21	1	Q3	10.320,23 €	3.440,08 €
16	23-05-1-0221	09-908/23-16484/12	1	Q3	22.083,07 €	7.361,02 €
17	23-05-1-0307	09-908/23-15842/21	1	Q3	34.419,13 €	11.473,05 €
18	22-04-3-0014	09-908/22-3611/19	3	Q3	127.088,29 €	42.362,77 €
19	21-01-7.1-0002	09-908/21-11797/39	7	Q3	21.457,02 €	7.152,34 €
20	23-05-1-0395	09-908/23-16727/17	1	Q3	10.849,65 €	3.616,55 €
21	23-05-1-0230	09-908/23-14887/17	1	Q3	28.033,21 €	9.344,40 €
22	23-05-1-0334	09-908/23-16704/24	1	Q3	33.625,28 €	11.208,43 €
Total:					573.776,91 €	191.259,00 €

Third sample was drawn from population which contains expenditures declared (list of payments) in Q4 of FY 2024, total of 163 payments (150 final and 13 interim) in amount of 6.485.457,10 €. The AA, using IDEA software, randomly chose 32 payments (27 final and 5 interim) in amount of 1.306.519,17 €. Sample is presented below:

No.	Application ID	Contract reference	Declared expenditure			
			Measure	Quarter	EU part	National part
			3	4	5	6
1	23-05-1-0178	09-908/23-16558/19	Q4	1	40.665,62 €	13.555,21 €
2	23-05-1-0213	09-908/23-16019/21	Q4	1	104.830,12 €	34.943,38 €
3	23-05-1-0231	09-908/23-14885/21	Q4	1	25.585,63 €	8.528,54 €
4	23-05-1-0255	09-908/23-16422/25	Q4	1	38.957,52 €	12.985,84 €
5	23-05-1-0066	09-908/23-13404/17	Q4	1	19.689,83 €	6.563,28 €
6	23-05-1-0373	09-908/23-16462/17	Q4	1	20.846,41 €	6.948,80 €
7	22-04-1-0026	09-908/22-6413/29	Q4	1	37.040,25 €	12.346,75 €
8	21-01-7.1-0013	09-908/21-11938/40	Q4	7.1	42.504,18 €	14.168,06 €
9	23-05-1-0201	09-908/23-15883/19	Q4	1	49.426,84 €	16.475,61 €
10	23-05-1-0322	09-908/23-16845/23	Q4	1	71.217,70 €	23.739,23 €
11	23-05-1-0364	09-908/23-15601/17	Q4	1	45.964,42 €	15.321,48 €
12	22-04-3-0028	09-908/22-3264/39	Q4	3	186.965,08 €	62.321,70 €
13	23-05-1-0276	09-908/23-16504/21	Q4	1	19.119,05 €	6.373,02 €
14	23-05-1-0330	09-908/23-15166/17	Q4	1	21.774,16 €	7.258,06 €
15	23-05-1-0072	09-908/23-13463/25	Q4	1	19.336,66 €	6.445,55 €
16	23-05-1-0317	09-908/23-16787/31	Q4	1	117.766,00 €	39.255,34 €
17	23-05-1-0257	09-908/23-16445/19	Q4	1	13.954,47 €	4.651,49 €
18	21-03-1-0038	09-908/21-15136/39	Q4	1	22.735,09 €	7.578,36 €
19	23-05-1-0041	09-908/23-12584/25	Q4	1	43.741,99 €	14.580,67 €
20	23-05-1-0145	09-908/23-15153/17	Q4	1	30.051,19 €	10.017,07 €

21	23-05-1-0279	09-908/23-15767/28	Q4	1	4.120,47 €	1.373,49 €
22	23-05-1-0076	09-908/23-13474/25	Q4	1	12.776,46 €	4.258,83 €
23	23-05-1-0069	09-908/23-13453/24	Q4	1	34.179,13 €	11.393,04 €
24	22-04-1-0077	09-908/22-6617/34	Q4	1	90.059,52 €	30.019,84 €
25	23-05-1-0181	09-908/23-15621/20	Q4	1	4.726,46 €	1.575,49 €
26	23-05-1-0282	09-908/23-16397/15	Q4	1	48.839,81 €	16.279,94 €
27	23-05-1-0147	09-908/23-16560/13	Q4	1	31.018,87 €	10.339,63 €
28	23-05-1-0234	09-908/23-14876/18	Q4	1	16.222,50 €	5.407,50 €
29	23-05-1-0235	09-908/23-14870/24	Q4	1	20.218,94 €	6.739,65 €
30	21-01-7.1-0042	09-908/21-12128/37	Q4	7.1	21.942,37 €	7.314,12 €
31	23-05-1-0318	09-908/23-16774/19	Q4	1	29.140,67 €	9.713,56 €
32	22-04-1-0029	09-908/22-6437/34	Q4	1	21.101,76 €	7.033,92 €
Total:					1.306.519,17 €	435.506,45 €

When it comes to the number of final and interim payments, out of 347 payments, the AA chose 70 payments for substantive testing which presents 20,17 % of total population. When it comes to the audited value, out of total amount of final and interim payments of 11.664.945,00 € (EU part), the AA by substantive testing covered 2.462.624,08 € which presents 21,11 % of total population. The AA confirms that applied sampling methodology is in line with requirements prescribed in Guideline 2.

In line with the DG AGRI guideline no 2 “Audit Strategy”, materiality level<sup>19</sup>, i.e. maximum deviation that can be accepted, in monetary terms is set up at max 2% of gross certified expenditure declared to the Commission in for FY 2024, amounted to 11.664.945,00 \*2%=233.298,90 €.

All sampled transactions (70 transactions) are 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 cover the requirements of the Framework and the Sectoral Agreement, IPARD II Programme, national legislation, as well as specific requirements per call for applications of each sampled project.

During the administrative verification the AA carried out 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

<sup>19</sup> For the purpose of error evaluation, the AA used only EU part of gross expenditures.

of recipient, eligibility of project, eligibility of the items purchased (including the compliance with the rule of origin), reasonableness of the costs, correctness of the payment amount, correctness of the co-financing rate applied, double financing, etc.

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

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

Furthermore, according to Guideline 2, section 6.4, the AA conducted compliance testing through dual purpose testing (substantive and compliance testing), i.e. based on two samples of substantive testing. Namely, in line with the DG AGRI guideline no 2, compliance testing should be carried out on at least 10 transactions for each of the populations defined. Using professional judgment, the AA selected 5 transactions (out of 16 sampled for substantive testing) from the expenditures declared in Q1 and Q2 of FY 2024 and 5 transactions (out of 22 sampled for substantive testing) from the expenditures declared in Q3 of FY 2024. According to the auditors professional judgement, the sample was suitable for compliance testing since it covered a variety of transactions respecting the principle of diversity (coverage) which implies all measures (1, 3 and 7), different types of sectors and investments (reconstruction, mechanization, purchase of planting material of perennial plant crops, etc. ), as well as different types of payment (interim and final payment) and thus ensuring all necessary requirements defined in Guideline 2 as well.

### **5.2.2. Non-operational transactions**

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

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

During the dual-purpose testing of irregularities/debts, the AA carried out assessment of each item of population in order to establish whether the debt management procedures were carried out in compliance with the applicable rules and whether the debt-related information provided to DG AGRI within the quarterly and annual declarations is correct.

AA tested all cases presented in Debtor’s Ledger and details are presented in part 7.3 to this Report.

There were twelve<sup>20</sup> new cases of debts included into Debtor's ledger during FY 2024 and one case from previous years and AA tested all thirteen cases i.e. 100 % of population. Within Debtors ledger which was submitted to the EC on 14<sup>th</sup> February 2025 there was included recipient with ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29) even amount of debt (2.743,80 EUR (EU part)) was not included in calculation of closing balance. Namely, due to wrong interpretation of Decision for recovery of funds, IA advisors responsible for preparation of Debtors Ledger and D1s treated this amount as administrative error instead of irregularity. Following procedures for administrative errors, IA deducted this amount in first next quarterly declaration (D1 Q2) but funds were not credited to the IPARD Euro Account by national authorities in line with Article 41(8) of the SA. Later on, IA detected this omission and included this recipient in Debtors Ledger in December 2024. However, amount of 2.743,80 EUR was not taken into account correctly during preparation of D2 and consequently total amount of declared expenditures which is stated in form D2 for 2024 (11.689.936,22 EUR) does not present total net amount, although all "negative amounts (recoveries, overpayments, written off amounts)" should be deducted from gross amount of expenditures.

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 2024 (D2).

When it comes to the movements in the IPARD Euro account, the AA identified that there were 43 transactions/movements in total (debit and credit) for period from 01/01/2024 to 31/12/2024. Considering that pair "payment execution/control activity" was assessed as "Works well" for FY 2023, according to Guideline No 2, minimum sample size is 8 transactions. Using non-statistical methodology by IDEA software, AA randomly chose 9 transaction/movements in Euro IPARD account for dual purpose testing (substantive and compliance) testing and verification in order to establish the legality and regularity of the declared principal and interest amounts.

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

Furthermore, the AA verified the completeness and correctness of the amounts declared as recovered. Amounts declared as recovered were credited to the IPARD Euro account within three working days from the date of recovery, recoveries that were made in the reference period were recorded and included in the declaration to the Commission for that reference period and EU part of the recovered debts were credited to the IPARD Euro account.

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<sup>20</sup> Including Recipient ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29) which was not presented in Debtor's Ledger in FY 2024 as a new case, even though it was entered in FY 2024.

When it comes to the advance payments, there were 2 transactions during FY 2024. Considering that only 2 advances were paid, there was no need for sampling. AA performed verification in order to establish the legality and regularity of the declared amounts as well as test of controls in order to express an opinion on the effectiveness of the ICF related to advances, i.e. to verify how the controls have been able to detect and correct errors before a advance payment has been made.

During dual purpose testing of the advance payments, the AA verified legality and regularity of 2 transactions in total amount of 38.742,63 €. Namely, the AA has verified completeness of supporting documentation as well as their validity, whether requested amount is within allowed limits (maximum up to 50% of the amount of eligible costs), correctness of bank accounts of recipients on which payments were executed, whether the recipients on the black/red list, validity of bank guarantees as well as their amounts, fulfilment of contractual obligations related to submission of the Payment request for advances and execution of advance payment to the recipients, etc. Also, AA verified whether IA performs controls and checks which are prescribed by procedures regarding advance payments. After testing was carried out, the AA determined that all transactions are complete, and correct as to account, amount and period which were stated within supporting documentation. All conditions stated in the Agreements for disbursing advances have been fulfilled and the transactions have been executed to the recipient's bank account. AA verified controls defined in written procedures have been undertaken and they have been performed in accordance with the set deadlines.

Furthermore, AA verified whether final payments were made for all advances paid during the implementation of the IPARD II Programme, i.e. for 34 advance payments, in order to confirm whether investments are realized. AA verified that all advances are cleared.

**5.3. Indication of the sampling parameters and other information for statistical or non-statistical sampling procedures and explanation of professional judgement applied**

Taking into consideration number of payments during FY 2024, following the Guideline No.2, AA used non-statistical methodology. All required information is presented in Section 5.2.1. for operational transaction and 5.2.2. for non-operational transactions.

**5.4. Reconciliation between the costs declared to the Commission in the financial year and the population from which the random sample was drawn**

Reconciling items include negative items where financial corrections have been made in the financial year.

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

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

	Amount of expenditure declared	
	Public contribution (EU + national)	EU part only

<b>Quarterly declarations</b>		
1st quarter	373.517,12 €	280.137,84 €
2nd quarter	2.684.118,51 €	2.013.088,78 €
3rd quarter	3.900.005,34 €	2.925.003,91 €
4th quarter	8.647.276,43 €	6.485.457,10 €
<b>Sum of quarterly declarations</b>	15.604.917,40 €	11.703.687,63 €
<b>Annual declaration (D2)</b>		11.703.687,63 €
<b>Difference</b>		0,00 €

AA confirms that there are no differences between the expenditure 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 2024.

#### 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	11.703.687,63 €
Sum of payments stated in the list of payments	11.703.687,63 €
<b>Difference</b>	0,00 €

AA confirms that in FY 2024 there were no differences between the payments made and registered in the List of payments and gross expenditure declared in the Annual Declaration (D2), thus, the Annual Declaration (D2) is reconciled with the List of payments.

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

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

- Payments stated in the List of all payments were made in the financial year 2024;
- No double payment to a recipient was made;
- Payment order for all payments was issued within six months from the date of the submission of the payment request by the recipient, except of two cases which are presented below;
- 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 70 final and interim payments, i.e. 20 % of 347 of operational transactions in the List using non-statistical methodology by IDEA software.

For two payments, payment orders were not issued within six months from the date of the submission of the payment request by the recipient. Recipient with ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43) was subject of further investigations due to suspicion on fraud. An administrative procedure was

conducted and payment order was issued 297 days after receipt of payment request. Second breach of the six-month deadline is related to the recipient with ID No. 21-03-1-0100 (Contract ref. No. 09-908/22-165/24) where payment order was issued 205 days after receipt of payment request. According to information received from the IA, AA noted that exceeding of the defined deadline was caused due to delay in issuing the Single Administrative Document from Customs administration related to rule of origin.

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

<b>Reconciliation of the balance of IEA</b>	
<b>Document</b>	<b>Amount</b>
D2	411.800,02 €
Bank account statement 31.12.	411.800,02 €
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. Additional information on transactions of the IEA is presented in Sections 5.2.2 and 5.4.7.2. to this Report.

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

During audit of accounts the AA identified difference of 0,92 € 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 411.799,10 € is presented and in the analytical card of IPARD Euro account the amount of 411.800,02 € stands in the end of the financial year. DMS provided an explanation through checklists related to the financial statements, in which it was stated that due to accounting system, amount paid cannot be higher than amount requested and because of that lower amount was recorded. However, the AA identified that above-mentioned difference is the result of applying a different approach in the calculation of the EU part by the EC and NFD. The EC during calculation of the EU part applies a percentage of 75% to the total amount of public contribution presented within quarterly declarations of expenditure and revenue (Form D1). On the other hand, NFD, based on IA information applies a percentage of 75% on each payment separately. Difference in presented approach resulted in difference in 0,92 €.

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

**5.4.6. Reconciling the declared closing balance of the debtors' ledger**

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

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

<b>Reconciliation of the balance of debtors' ledger</b>	
<b>Document</b>	<b>Amount<sup>21</sup></b>
D2	147.424,26€
Debtors' ledger	147.424,26€
Difference	0,00 €

Amount of principal in the Closing balance of the debtors' ledger declared in the annual declaration (D2) is equal to the closing balance of the actual debtors' ledger (balance on 31.12.2024), but this principal amount does not include amount of 2.743,80 EUR (EU part) which is related to debt of recipient with ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29). This amount is presented in Debtor's Ledger but it is not included in calculation of closing balance and consequently in D2. Namely, IA advisors responsible for preparation of Debtors Ledger and D1s treated this amount as administrative error instead of irregularity. Following procedures for administrative errors, IA deducted this amount in first next quarterly declaration (D1 Q2) but funds were not credited to the IPARD Euro Account by national authorities in line with Article 41(8) of the SA. Later on, IA detected this omission and included this recipient in Debtors Ledger in December 2024. However, amount of 2.743,80 EUR was not taken into account in calculation of closing balance. AA considers that this amount should be treated as debt.

**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 11.703.687,63 €. Recovered amount based on debts presented in Debtors ledger, which was submitted together with D2, is 13.751,15€. In form D2 net expenditure is presented in total amount of 11.689.936,22€. However, as it is explained in Section 5.4.6.1. amount of 2.743,80€ which was deducted in D1 for second quarter of FY 2024 is not included in calculation of net expenditure. This amount is related to the recipient with ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29). Further information is presented in Section 6.3 to this Report.

Furthermore, in December 2024, national authorities credited amount of 48.900,00€ on the IEA, related recipient with ID No. 18-01-1-0228 (Contract No. 321-1349/18-10), which debt was written-off and deducted in September 2022. This amount was already presented in D2 for FY 2022 and included in calculation of total net amount for that financial year.

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<sup>21</sup> Since the D2 presents the principal amount of the debts, in this table, only principal amounts of debts are reconciled

The AA considers that the difference between the gross and the net eligible expenditure is not equal to the amount of administrative errors, written-off amounts and recoveries returned in the financial year 2024 because amount of 2.743,80€ was not included in calculation even it was deducted in D1 for Q2.

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

Debtors' ledger year n	Amount <sup>22</sup>		
	EU part		
(a) Opening balance year n	7.532,66 €	7.532,66 €	Debtors' ledger - Closing balance year n-1
(b) New cases	172.497,66 € <sup>23</sup>		
(c) Recoveries	13.751,15 €		
(d) Written-off debts	0,00 €		
(e) Corrections	0,00 €		
Closing balance year n a+b-c-d+/-e	166.279,17 €	166.279,17 €	Closing balance as declared in the annual declaration for year n

**This table is prepared based on information presented in Debtors ledger which was submitted to the EC on 14<sup>th</sup> February 2025 as part of Annual account package.** However, as presented in part 6.3 to this Report, AA identified that Debtors ledger which was sent to the EC on 14<sup>th</sup> February 2024, does not include debt in amount of 2.743,80 EUR referred to recipient with ID No. 20-02-1-0065 (Contract ref. 09-908/20-10473/28) in calculation of closing balance, although it was presented in Debtors ledger.

The AA confirms that, except of described deficiency, the actual closing balance of the debtors' ledger is equal to its last year's opening balance plus the transactions (new debts, recoveries and written off amounts).

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

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

<sup>22</sup> Based on information from Debtors ledger 14<sup>th</sup> February 2025

<sup>23</sup> Sum of principal 161.174,71€ and interest 11.322,95€

**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**

<b>Reconciliation of the balance of IEA</b>	
<b>Document</b>	<b>Amount</b>
D2	411.800,02 €
Bank account statement 31.12.	411.800,02 €
Difference	0,00 €

The AA confirms that closing balance of the IPARD Euro account declared in the D2 is equal to the actual closing balance of the IPARD Euro account on December 31<sup>st</sup>, 2024.

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

During 2024 the Commission transferred to the IPARD II Euro Account three payments on the basis of quarterly declarations related to FY 2024 in total amount of 5.201.735,51€ as well as one payment on the basis of quarterly declaration related to FY 2023 in total amount of 4.335.364,75 €. During FY 2024, there were four recovery transactions in total amount of 13.751,15€. These recoveries are related to new cases registered in FY 2024, i.e. recipient with ID No. 22-04-3-0023 (Contract ref. 09-908/22-3211/14) in amount 3.277,50 € (EU part), recipient with ID No. 21-03-1-0009 (Contract ref. 09-908/21-15025/26) in amount 1.176,42 € (EU part), recipient with ID No. 18-01-1-0295 (Contract ref. 321-1346/18-14) in amount 8.996,53 € (EU part) and recipient with ID No. 18-01-1-0297 (Contract ref. 321-1294/18-14) in amount 300,70 (EU part – principal and interest).

Beside these four recoveries registered in Debtors ledger, recipient with ID No. 21-03-1-0067 (Contract ref. No. 09-90822-2818) recovered amount of 0,26 € due to administrative error which was presented in AAAR 2023.

Furthermore, in December 2024, national authorities credited amount of 48.900,00€ on the IEA, related to recipient with ID No. 18-01-1-0228 (Contract No. 321-1349/18-10), which debt was written-off and deducted in September 2022. This amount was already presented in D2 for FY 2022 and included in calculation of total net amount for that financial year.

On December 31<sup>st</sup> 2024, on the IPARD II Euro Account there was an amount of 411.800,02 €.

In the course of FY 2024 there was no interest, and balance of interest by December 31<sup>st</sup> 2024 was 0,00 €. The deposit account is not opened and therefore there is no realized interest income.

	Principal amount (EUR)	Interest (EUR)
Opening balance of the IPARD Euro account	<b>2.515.735,98</b>	<b>0,00</b>
Current account <i>[account number]</i>	2.515.735,98 [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	9.537.100,26	
- for pre-financing	0,00	
- for covering expenditure executed in the previous FY	4.335.364,75	
- for covering expenditure executed in the current FY	5.201.735,51	
Interest accrued on the IPARD Euro account during the financial year		0,00
Amount of expenditure	11.703.687,63	0,00
Amount of national contribution financed from interest		0,00
Recovered amounts	13.751,41	
Written-off amounts	48.900,00	
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	<b>411.800,02</b>	

	Principal amount (EUR)	Interest (EUR)
Current account	411.800,02	0,00
Deposit account	0,00	0,00
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00
<i>[Deposit number] / [due date]</i>		
<i>[Deposit number] / [due date]</i>		

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

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

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

The reconciliation is presented in the table below:

	<b>IPARD Euro account</b>	
	<b><u>Principal amount</u></b> <b><u>(EUR)</u></b>	<b><u>Interest</u></b> <b><u>(EUR)</u></b>
Opening balance of the IPARD Euro account	<b>2.515.735,98</b>	<b>0,00</b>
Current account <i>[account number]</i>	2.515.735,98 <i>[907-0000000086001-40]</i>	0,00
Deposit account <i>[account number]</i>	0,00	0,00
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00
<i>[Deposit number] / [due date]</i>	0,00	0,00
<i>[Deposit number] / [due date]</i>	0,00	0,00

	<b>IPARD Euro account</b>				
	<b><u>Principal amount</u></b> <b><u>(EUR)</u></b>	<b><u>Interest</u></b> <b><u>(EUR)</u></b>			
Transactions in the financial year					
Amounts received from the Commission in financial year	9.537.100,26				
- for pre-financing	0,00				
- for covering expenditure executed in the previous FY	4.335.364,75				
- for covering expenditure executed in the current FY	5.201.735,51				
Interest accrued on the IPARD Euro account during the financial year		0,00	Annual declaration amount of expenditure declared		Difference
Amount of expenditure	11.703.687,63	0,00	11.703.687,63 <sup>24</sup>		0,00
Amount of national contribution financed from interest		0,00	Debtors' ledger - EU part only		Difference
			Principal amount	Interest	
Recovered amounts	13.751,41		13.750,45	0,70	0,26
Written-off amounts	48.900,00		0,00	0,00	48.900,00
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				

<sup>24</sup> Interim, final and advance payments

	<b>IPARD Euro account</b>	
	<b><u>Principal amount</u></b> <b><u>(EUR)</u></b>	<b><u>Interest</u></b> <b><u>(EUR)</u></b>
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	<b>411.800,02</b>	
Current account	411.800,02	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 2024, no deviations were found regarding completeness, accuracy and veracity of the amounts, except deficiencies presented in section 6.3 of this Report.

Differences between the IPARD Euro account and the debtor's ledger, regarding recovered amounts and written-off, appeared due to following:

- Recovered amount of 0,26 € is related to recipient with ID No. 21-03-1-0067 (Contract ref. No. 09-90822-2818) and administrative error which was presented in AAAR 2023.
- Amount of 48.900,00 €, which was credited to the IEA by national authorities, is related to recipient with ID No. 18-01-1-0228 (Contract No. 321-1349/18-10), which debt was written-off and deducted in Debtors ledger for FY 2022 but funds were not credited to the IEA at that moment.

Detailed information is provided in Part 7.3 of this Report.

Total amount of expenditure declared to the Commission for FY 2024 is equal to 11.689.936,22 €<sup>25</sup> (EU part) within four quarterly declarations submitted by NAO. First one (D1 – Q1) was declared on 24<sup>th</sup> April 2024 in amount of 275.683,92 €, second (D1 – Q2) was declared on 23<sup>rd</sup> July 2024 in amount 2.010.344,72 €, third (D1 – Q3) was declared on 30<sup>th</sup> October 2024 in amount of 2.915.706,68 € and fourth (D1 – Q4) was declared on 30<sup>th</sup> January 2025 in amount of 6.485.457,10 €. Although debt in amount of 2.743,80€, related to the recipient with ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29), was deducted in D1 for second quarter of FY 2024, this amount was not included in calculation of total net amount presented in D2 for FY 2024 and thus amount of 11.689.936,22 € does not present total net amount of declared expenditures. This difference is presented in Table of differences which is part of Annual account package which was submitted on 14<sup>th</sup> February 2025.

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

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

The AA confirm that the negative amounts have been treated as a separate population. During FY 2024, there were six negative items related to the recovered amounts.

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

Considering requirements from Guideline 2 “Audit strategy”, point 7.1.3.1 where is defined that in case of population with 500 transactions or less, non-statistical sampling methodology should be used, and number of total transactions during FY 2024, where IPARD Agency executed 347 final and interim payments to the recipients, the AA used 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
	<b>1. Population</b>	
<b>a</b>	Total amount of gross expenditure	11.664.945,00 <sup>26</sup>
<b>b</b>	Materiality = 2% of a	233.298,90
<b>c</b>	Number of transactions in the IPARD population	347
	<b>2. Assumptions used by the AA to determine the sample size</b>	

<sup>25</sup> Total net amount declared to the EC

<sup>26</sup> Interim and final payments

d	Assessment of the ICS of the IPARD Agency	Works
e	Required sample size in terms of hits	20%
<b><u>3. Sample tested</u></b>		
<b><u>3.1 Sample size</u></b>		
f	Number of transactions tested as part of the substantive testing sample	70
g	Value of the sampled transactions tested	2.462.624,08
<b><u>3.2 Errors in the sample</u></b>		
h	Total no. of formal errors found in the sampled transactions	2
i	Total no. of random errors found in the sampled transactions (overpayments only)	4
j	Value of random errors found in the sampled transactions (overpayments only)	13.124,11
k	Error rate = $j / g$	0,53%
l	Extrapolated error = $k * a$	62.166,22
m	Total no. of financial errors found in the substantive-testing sample which have been classified as known errors	0
n	Value of financial errors found in the substantive-testing sample which have been classified as known errors	0
<b><u>4. Tested outside of the sample</u></b>		
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
<b><u>5. Errors found during compliance testing</u></b>		

<b>r</b>	Total no. of financial errors found in compliance testing <sup>27</sup>	0
<b>s</b>	Value of financial errors found during compliance testing classified as known errors	0.00
<b>6. Calculation of the financial impact</b>		-
<b>t</b>	Total error = l + n + q + s	62.166,22
<b>u</b>	Materiality = b	233.298,90

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

## 5.7.2. Non-operational transactions

### 5.7.2.1. Debts

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”.

As explained in Section 5.2.2. to this Report, case of Recipient ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29) was not presented in Debtor’s Ledger in FY 2024 as a new case, even though it was entered in FY 2024.

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

As regards advances and securities, there were 2 advances paid to the recipients and declared to the EC. For FY 2024, as a result of substantive and compliance testing of advance payments, no errors were identified.

<b>Basic data</b>	<b>Advances and securities</b>
Value of the population	38.742,63
Materiality	774,85
Number of transactions in the population	2
Sample size	2
Total value of sampled items tested	38.742,63

<sup>27</sup> AA used dual purpose testing, thus, amount of error identified in compliance testing is considered as random error and accordingly extrapolated

<b>Financial errors found from sampling:</b>	No errors found
<b>Extrapolated total error</b>	0,00
<b>Conclusion</b>	
<b>Total error</b>	0,00
<b>Materiality</b>	774,85

A detailed table of all cases checked is attached in Annex 3 (sheet 2.5.1) to this report, following the template of appendix 2.5.1 of Annex 2 to Guideline 3.

### 5.7.2.3. IPARD Euro account

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

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

## 5.8. Analysis of the main findings of the audits of operations

### 5.8.1. Operational transactions

<b>Level of importance:</b> Major	<b>Body and area concerned:</b> IPARD Agency/NAO
<b>Finding number and title:</b> 1. Control deficiency and irregularity with suspicion on fraud regarding application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43)( ref 4.1.1. of final report of audit of operations for Q1 and Q2)	
<b>Project(s) and Programme:</b> ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43), Measure 1	
<b>Description of the finding:</b> ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements; 2. (c) Fraud risk – ensuring that potential for fraud and irregularities is considered when assessing risks to the achievement of objectives, – ensuring that irregularities noted lower down in the organisation are reported appropriately and followed-up, including protection for "whistle-blowers" Recipient with application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43) applied for support within fourth public call of Measure 1, project title: 'Procurement of equipment and machinery needed for broiler farm'. After administrative and on the spot controls, recipient received support for the following items <sup>28</sup> : Feeding and	

<sup>28</sup> Following the invitations for offers

*drinking system, Microcontroller computers, Items for equipping the farm, Transporter for waste management, Scales and Mechanization.*

Recipient submitted payment request in June 2023, however, payment was executed in April 2024 due to the long duration of the administrative proceeding. By analyzing IA's report of on the spot control conducted in August 2023 (before payment), AA noticed numerous uncertainties and deficiencies signaling the presence of multiple red flags.

Since the recipient has applied 6 times for IPARD funds, including IPARD Like (5 approved projects and 1 rejected), and in order to monitor double financing, AA auditors requested from IA, among other evidences, to provide all photos from IA's previous on the spot controls. Considering that AA conducted on the spot verification in September 2024, and according to the delivery notes, recipient received the equipment in April 2023, which is more than a year prior, special emphasis was placed on the IA photos before payment, as this was the most reliable proof for determining whether the equipment was new.

Through compliance testing and substantive testing, AA noticed several deficiencies in the work of the IA, altogether with several irregularities which are presented below:

- Recipient applied through fourth public call (Measure 1) for procurement of a feeding system, drinking system, medicator for adding medications with filtration group, tunnel ventilation, servomotors for opening summer/winter flaps, humidification and cooling system, control panel as well as lighting (all presented as part of feeding and drinking system in the offer/invoice) for facility number 5 (the recipient has a total of 6 facilities for chicken broilers). After the administrative proceeding, from the above listed items, IA rejected for payment the tunnel ventilation, servomotors for opening winter flaps, humidification and cooling system because IA concluded that the recipient presented visibly used equipment as new. *Total public support for the approved and paid items of the Feeding and drinking system was 9.001,53 EUR without VAT (EU + national part).*

AA auditors, by analyzing photos of the mentioned facility number 5 from September 2021, noticed that this facility was equipped with a feeding and drinking system which appears to be new. The recipient stated in the Request for support which was sent in April 2022 (approximately 7 months after the mentioned photos), that subject of procurement is a new system because the existing equipment was outdated. Therefore, AA considers that this part of procurement should not have been contracted at all. Furthermore, replacement of equipment is not an eligible expenditure according to the List of Eligible expenditure for Measure 1.

- By analyzing the IA's photos from on the spot prior payment (August 2023), auditors noticed that the integral parts of the feeding and drinking system show visible signs of usage and rust, which the auditors consider could not have developed in a period of 4 months (delivery note April 2023 - OTSC August 2023). Additionally, by analyzing the photos of facility number 5 from September 2021, photos before contracting<sup>29</sup> (November 2022) as well as before payment (August 2023), auditors noticed that the shape of the feeders is the same and unique to that facility, since the feeders in the other facilities of the recipient differ.

Furthermore, Mediator for adding medication with filtration group, as part of the system, was pictured in September 2021 as well as in November 2022 (OTSC before contracting). By analyzing IA's on the spot photos before payment (August 2023), AA auditors noticed the same type of medicator with the characteristic graphic display on the wall as well as the sign of removed label which was pictured also in September 2021 and November 2022.

As part of equipping facility number 5, recipient applied for procurement of a control panel. By reviewing the IA's photos, same model with same specific characteristics was spotted in the photos from July 2019, as well as before contracting in November 2022. By analyzing the photos, the auditors consider that the same control panel was presented during on the spot before payment (August 2023) as well as during AA's on the spot check.

- Recipient applied for procurement of a transporter for waste management (*amount of public support 4.452,50 EUR without VAT*). By analyzing the IA's photos from on the spot before contracting from November 2022, auditors noticed a transporter located in the property of the recipient. The IA controllers did not take close-up photos or record the model and serial number, and since the recipient applied for the procurement of a new transporter for the same purpose, AA considers this to be a control oversight.

<sup>29</sup> Phrases OTSC before contracting and OTSC before payment refer to sampled project, i.e. Fourth public call, Measure 1

Additionally, the perceived transporter was not listed in the recipient's List of fixed assets. While analyzing the pictures before payment from August 2023, auditors noticed that the transporter which was presented as procurement item is similar to the one spotted in the contracting pictures, for which the recipient stated that he had sold it. Although in the report from on the spot before payment, controllers stated that the transporter appeared old, it was approved and paid to the recipient. Auditors analysed photos from the IA's on the spot check before payment and noticed damage on the transporter belt as well as presence of visible signs of rust, which the auditors consider could not have developed in a time span of 4 months (delivery note April 2023 - OTSC August 2023).

- Recipient applied for procurement of four wardrobes for workers (*total amount of public support 936,00 EUR without VAT*). By analysing pictures from on the spot control in payment phase of this project (August 2023), AA auditors noticed damage as well as presence of visible signs of rust on the wardrobes, which the auditors consider could not have developed in a time span of 4 months (delivery note April 2023). Furthermore, AA auditors analysed pictures from on the spot control of a project supported by IPARD like which was performed in October 2016 and spotted four wardrobes with same characteristics. It is indicative that on the pictures before payment of this project, AA auditors noted traces of glue, exactly on the places where there were stickers which AA auditors noticed in the photos from October 2016.
- Recipient applied for procurement of four rubber flexible hoses with couplings for washing farms as well as two nozzles for directing water (*total amount of public support 587,86 EUR without VAT*). By analysing pictures from on the spot control in payment phase of this project (August 2023), AA auditors noticed damage on this equipment which the auditors consider could not have developed in a time span of 4 months (delivery note April 2023).
- Recipient applied for procurement of stainless-steel equipment for washing hands (*amount of public support 637,00 EUR without VAT*). During AA on the spot control in September 2024, auditors noticed that more than a year after procurement, the equipment is still not operational.
- Recipient applied for the procurement of 4 handcarts. During on the spot check before payment (August 2023), DOSC controllers found 2 handcarts, and although they noted in their working papers that the carts appeared old, the IA approved and paid for 2 pieces (*amount of public support 364,00 EUR without VAT*). By analysing the pictures taken before payment, auditors noticed that the carts appeared excessively worn-out for a time period of 4 months (delivery note April 2023). Furthermore, the on the spot verification conducted by the AA in September 2024, more than a year after the pictures were taken by the IA, showed no significant difference in their condition.
- Recipient applied for procurement of disinfection barriers (*total amount of public support 552,00 EUR without VAT*). By analyzing the pictures from the IA before payment (August 2023), as well as the fieldwork conducted by AA in September 2024, the auditors did not find the expected disinfection barriers (priced at EUR 70-170,00 without VAT). Instead, sheet metal molds with sponges inside were found on-site. Additionally, the same sheet metal molds can be seen in the IA's photos from March 2020.

Despite all the red flags presented in the on the spot control reports, the IA approved and paid the recipient a total of 78,916.23 EUR without VAT (EU + national contribution). All presented irregularities indicate that the recipient has violated the **Sectoral Agreement, Article 33, paragraph 3 (f) 'The following expenditure shall not be eligible under the IPARD II programme: second hand machinery and equipment'**. Therefore, considering the presented irregularities, auditors could not obtain reasonable assurance that the equipment found on the recipient's farm, which was presented as the object of procurement, was new. The AA considers that the recipient did not comply with the provisions of the applicable regulations, which leads to suspicion of fraud.

Additionally, by analyzing the IA's Register of irregularities, AA noticed that the recipient is entered in the Register of irregularities for Measure 1, fourth public call, which is the subject of our sampling, for the items which were not approved by IA for payment. Employees of DOSC, in collaboration with the officer for irregularities, initiated the procedure for determining irregularities in August 2023, and the Conclusion regarding the established irregularity was made in September 2023. The AA received evidence that the case was entered as a draft in Irregularity Management system (IMS); however, according to IMS procedures, if a draft is not finalized within six months, it is deleted from the system, which indeed happened. Upon reviewing IMS, AA noticed that the case has still not been entered into the system, even though the Conclusion dates from September 2023.

In Annex H (Clause 2) of the FWA it is stated that the IPA II beneficiary shall report any suspected fraud and other irregularities which have been the subject of a primary administrative or judicial finding without delay to the Commission and keep the latter informed of the progress of administrative and legal proceedings. In the Guideline for managing irregularities of the AFCOS office, it is explained that primary administrative or judicial finding means the conclusion of the implementing agency on the identified irregularity. Further, Annex H (Clause 5) of the FWA states: "Information referred to in Clause 2, 3 and 4(1) shall be sent in the English language, by electronic means, using the module provided by the Commission for this purpose via a secure connection". Additionally, in the IA's Manual of procedures for Irregularities, it is stated that the implementing agency immediately submits to AFCOS Office for NAO an initial report in the framework of IMS system. Since IA did not report established Conclusion on irregularity in the IMS, AA consider this to be a failure of control.

Note: An important observation is that by analyzing the files on irregularities, AA found two conclusions on irregularities related to recipient's previous project. Employees of DOSC submitted in January 2023, an Irregularity alert form, which included suspicion of fraud for the project that was approved and paid through third public call under Measure 3 (M3.3). The Conclusion regarding the established irregularity with suspicion of fraud was also made in January 2023. However, this case was not forwarded to the prosecutor's office as defined by the AFCOS guidelines and IA procedures, nor was entered into the Register of Irregularities or IMS. Upon reviewing the files, auditors noted that information on some equipment from both projects (M1.4 and M3.3) were submitted to the Inspection Authority for carrying out inspection and checking the accounting data of this recipient and of suppliers. The Inspection Authority responded that it is not within their jurisdiction such an inspection and provided evidence that the case was forwarded to the Police Authority. In May 2024, a new Conclusion regarding the established irregularity for project under Measure 3, third public call, was made. Upon analyzing the document, auditors noted that although it was circled that there is suspicion of fraud, in the further document, the case was qualified as an irregularity without suspicion of fraud. The new Conclusion was not entered into the Register of Irregularities or IMS.

**Recommendation:** *The AA recommends following:*

- *Given the nature of the finding (suspicion of fraud), AA recommends the IA to initiate termination of the Contract as well as recovery of the total amount of the project, i.e. public support 78.916,23 EUR (EU part 59.187,17 EUR and national part 19.729,06 EUR).*
- *In line with Article 51 of the FWA, AA recommends to the NAO and IA to follow the requirements in order to examine the potential presence of intentional fraudulent behaviour.*
- *Since auditors identified several deficiencies during the project circle (in contracting, on the spot, approval of payment, reporting on irregularities), AA recommends the IA employees to conduct their duties with due diligence, in line with EU and national regulation, as well as internal procedures, in order to prevent the occurrence of similar cases.*

**Auditee's response:** *Recommendation regarding termination of contract and recovery of funds not accepted until resolving case at the level of prosecutor/relevant court of Montenegro. Referent procedure will be initiated concerning suspicion of fraudulent activities. IPARD agency reply:*

The recipient, through the Application form (Request for Support and Business Plan), stated that the company continuously invests in farms, either with the aim of expanding production capacity or with the aim of technologically improve production, which will ultimately result in lower production costs and higher company profits. Also, through the request, the recipient stated that through the IPARD project he will purchase the agricultural machinery and equipment he needs for production, such as procurement of system for feeding, drinking, as well as ventilation and cooling systems for a farm where there is old equipment, which was worn out, and is has frequent breakdowns. Recipient also stated that the planned investment will not affect the increase in production capacity but will contribute to the improvement of technological production and lowering of production costs. After analysing the reports from the on-the-

spot control, it was determined that the items that are the subject of the investment were not found on the field during on the spot control before contracting. Due to that fact, it was determined that the recipient did not start realization of investment before contracting. Considering the above-mentioned, the IA had no basis to reject the project. Namely, if the equipment that is found during the on spot control since November 2022. (which was not purchased through IPARD) is determined to be outdated and restricts the production process, so recipient has the right to apply for new equipment, because old one was outdated and not in proper use. Namely, in question is purchasing new eligible equipment, not replacement of old one, which is confirmed by the invoices for the procurement of the same. Bearing in mind the above, it is obvious that it is not a matter of replacement, but the acquisition of new contracted equipment. and which is in accordance with the List of acceptable costs. The new equipment will contribute to increasing efficiency and productivity, improving safety and compliance with regulations, quality of the end product, reduced downtime in production and reduction of maintenance costs. Since the IA accepts new machinery (e.g. a tractor), even though the farm already has it, but it is outdated and limits the work process, the IA also accepts equipment if it is justified (as in this case).

Taking into account your findings, and by reviewing the case files and all the evidence individually, an undoubted conclusion is drawn that there was no basis for rejecting the request for support, and for the reason that the items in question is provided for in the List of Eligible Expenditures, while the same was not found on the recipient's farm during on-the-spot control before contracting.

Regarding the deficiencies for equipment that AA mentions:

- 1) As for the allegations from AA report, related to the "system for feeding and drinking", specifically that the shape of the feeders is the same from September 2021, November, 2022 and August 2023, and there is an insinuation that the recipient acquired them already in September 2021 we explain the same as follows: Since it is the fact that it during OTSC on March 11, 2024., it was undoubtedly established that the items in question were found in the recipient's warehouse, while items of the same type, supported by the IPARD programme, were found implemented on the farms - the place of realization of the investment, for which there is photo documentation that the IA attaches to this answer.
- 2) When it comes to the findings related to the fact that the Medicator was photographed in September, 2021, as well as in November, 2022 (OTSC before contracting), and that the IA photographed the same during OTS control before payment in August 2023, we explain the same as follows: The IA states this because additional OTS control on March 11, 2024., found two pieces of the item in question in the warehouse, while six pieces of the same item were found installed on farms, at the place of realization of the investment.
- 3) When it comes to the allegations related to the control panel, which has been on photos from the IA OTS control from July 2019, November 2022 and before the payment in August 2023, the IA found that there are significant differences between the control panel found from July 2019, November 2022 and the same one found on the recipient's farm before payment in August 2023. After re-inspecting the photo documentation, the IA found that control panel in question is new, but re-inspection of the photo documentation revealed that for the second component of the item in question - the electrical cabinet, there are indications that it is not new equipment. . Taking into account the above, although the key part of this item - the Control Panel, is new equipment, for the other part of the item there is a suspicion that the same was second hand, and we agree that

it needs to be re-examined, which, together with other recommendations that can be characterized as a suspicion of fraud, to be sent to the prosecutor's office for review and eventual initiation of the fraud determination procedure in court.

- 4) When it comes to the allegations related to the "transporter for waste management" that was found on OTSC photos before contracting, from November 2022, - the OTSC controllers accidentally took photos of the item in question, because it was not the subject of the OTSC control, as well as that it was not recorded in the list of fixed assets, and was not subject to control before contracting in November 2022. Also, from the existing photo documentation, it cannot be determined with certainty that it is the same item, as claimed in the finding.
- 5) As for the findings related to the wardrobes for the workers, the IA cannot be sure, since a significant period of time has passed.
- 6) When it comes to the allegations related to the rubber flexible hoses could not be in the condition as shown by the photo documentation from the OTS control from August 2023., for the reason that only 4 months have passed, we explain the same as follows. Since it is the fact that the item in question is used daily and dragged on hard surfaces in high temperatures (during summer), Additionally, OTS control from March 2024, found 100 m of rubber hose on several places on the recipient's farm, and it cannot be concluded whether the degree of damage could have occurred in 4 months considering the described method of use and weather conditions.
- 7) When it comes to the allegations related to the stainless-steel equipment for washing hands that is not in operation, after more than a year after it has been bought, we explain the same as follows: Regarding the fact that during the OTS control before the payment in August 2023, it was determined that the item in question is operational, and that it cannot be determined just from the attached photo documentation.
- 8) When it comes to allegations regarding the handcarts and analysis of the photos taken before payment, auditors noticed that the carts appeared excessively worn-out for a time period of 4 months (delivery note April 2023), the IA cannot give confirmation for AA claims, for the reason that the handcarts in question are constantly used and are easily teared in a very short period of time, which can be confirmed by the OTS controller's experience in the field.
- 9) When it comes to allegations that photos of IA before payment (August 2023), as well as the fieldwork conducted by AA in September 2024, the auditors did not find the expected disinfection barriers (priced at EUR 70-170.00 without VAT), as well as the fact that the sheet metal moulds with sponges inside were found OTS. Additionally, the same sheet metal moulds can be seen in the IA's photos from March 2020 – IA states that it was not possible to determine that it is the same item from different periods, given the fact that it is frequently used to clean shoes (fertilizer) and the sponges in the metal mould are often changed, for which the IA received an explanation from the recipient during the oral discussion.

It is important to point out that during the administrative control of the case, due care was taken in the evaluation of all submitted evidence, as well as those obtained on official duty. Also, an on-the-spot control was carried out before contracting, before payment, and the user, in order to determine the factual situation, was invited to an oral hearing, after which another additional on-the-spot control was carried out in order to verify the user's statements from the minutes of the oral hearing, and in regarding the entire

documentation of the incentive request. It is also important to point out that the user, in accordance with the request control procedure, submitted all evidence of the realization of the investment from legal entities registered for relevant activities (invoices, certified payment slips as proof of payment of funds). Namely, in order to determine the factual situation on September 22, 2023. In 2008, we sent - a request to start an inspection in the field of internal trade and possibly start a misdemeanour or other procedure before the competent authorities - in order to check the financial transactions of users and suppliers from whom the mentioned items were purchased. On 10.10.2023. year, we received a notice from the Directorate for Inspection Affairs declaring it incompetent and that it forwarded the request to the Police Directorate and the Revenue and Customs Directorate. We did not receive an answer to our request within the legal deadline, and not even after that.

Bearing in mind the above, as well as the opinion expressed by the AA that there is a suspicion on fraud, the IA will without delay send an initiative to Prosecutor to review whether there is reasonable suspicion on fraud in the actions of the recipient.

Regarding recommendation for initiating termination of the contract, as well as recovery of funds paid to the recipient under this contract, i.e. public support 78,916.23 EUR (EU part 59,187.17 EUR and national part 19,729.06 EUR), in accordance with national legislation there is no basis for termination at this moment until procedure with prosecutor will be finalized, i.e.. until decision will be made by the prosecutor's office and the court whether the fraud has been committed. Thus, termination of contract and recovery of funds will be initiated respectively, if the previously mentioned decisions will be positive.

Regarding the recommendation related to the irregularities, we would like to inform you about the following:

- a) Failure to enter into the IMS system: cases that have not been fully processed in the IMS system have the status of a draft, and they were entered into the system on time. The IA waited until a final decision is made on the return/rejection of the payment request, which has not happened with the case for a long period of time. The IA will report this case through IMS immediately and it will send the finalized case to the AFCOS office. After that, the case will be updated with a new conclusion and update, after determining the further steps in handling the case. Also, the IA emphasizes that through the IMS system there is a possibility to review the drafting date, so AA can see when the case was initially entered. In addition, the IA emphasizes that since 2022, IA periodically had problems with reporting irregularities through IMS, and there were also problems with e-mails, about which there is evidence in the attachment, precisely for this case (in folder c).
- b) Absence of a conclusion on irregularities in the IMS: the procedure is such that the IA sends the form and conclusion on irregularities to the AFCOS office via email (scanned version), and through IMS only fills in required fields of the system itself. Since the form and the conclusion are filled out in our language, and in the IMS system in English, the AFCOS office was of the opinion that there is no need to enter those forms into the IMS as an attachment, but to send them only via email.

- c) Deletion of the case from IMS after six months: irregularities were entered into IMS when we had the opportunity to enter them, for two reasons: 1. IMS did not work for us (attached e-mail correspondence with colleagues from the AFCOS office and OLAF); 2. Some cases were entered later, in relation to the application date, because the IA did not have a person in the system who could verify the cases (at that time IMS managers Vladislav Bojović and Sreten Grba left IA, and Marko Radonjić and Vladimir Jevtić were not immediately appointed for the spot and given ready certificates). 3. In addition, the IA sends a print screen that the AFCOS office has returned the cases to us, until the IA does a complete check on them. It is a problem for them when the IA reports partially, because of their reports that they send to the NAO. So, the agreement is to keep them in the system, but not to finalize them. Only questionable thing here is why the Audit Authority does not see our drafts. The explanation regarding all of this has already been sent by the IA to the Audit Authority on February 29, 2024, for which the IA is attaching evidence. Also, it was again forwarded on October 7, 2024.
- d) Case of the same recipient, and related to Measure 3: on January 12, 2023, colleagues filled in irregularity form as a case of suspected irregularity that includes suspected fraud. Considering that the IA has not encountered such a case before, colleagues from the AFCOS office were invited to a meeting to see if they could give us an advice on what to do in this case. However, it was communicated that not a single case of fraud has ever been reported in Montenegro, so the IA did not receive a specific recommendation, with the explanation that the AFCOS network is not currently operational. It remained as an agreement to involve other institutions and to follow the case further. The meeting was held on January 18, 2023, on which the conclusion on irregularity is dated, because after the meeting, colleagues determined that it was an irregularity, especially bearing in mind that, after additional on-the-spot control, some parts of the investment that were suspected were present on the farm/were established that they are not irregular. Namely, since the IPARD agency is not able to decide on its own whether the case is a fraud or not, nor is it competent for that, the case was further processed by the competent institutions, for which there is evidence in the recipient's documentation. Also, the IA emphasizes that it did not receive a response from the competent inspection regarding the letter it has sent to them (Inspection administration, Police administration and Tax revenue administration). The initial forms of the draft were also sent to the AFCOS office for inspection, where colleagues sent additional questions for the ambiguities they had, in response to that initial meeting mentioned above. For this the IA, also, delivers the evidence in the form of a print screen.

As a conclusion to the above explanations, IA would like to emphasize:

- Both cases of irregularities will be immediately processed through IMS and in the future, for all cases, they will be automatically finalized, regardless of the conclusion, and whether the situation has been resolved at that moment. So, as soon as the colleagues within the IA fill out the irregularity form, DRIM will finalize the case and send it to the AFCOS office;
- In order for all participants in the process to implement the procedure in accordance with the AFCOS guidelines, DRIM will start communication with the AFCOS office in order to hold a meeting at which the presence of all key positions of the IPARD Agency will be mandatory. In this

way, all colleagues will have the opportunity to remove possible ambiguities in their work, and similar situations will be prevented from happening in the future;

- Also, the IA will request training in the part of recognizing irregularities and fraud in practice from competent institutions (DMS, AFCOS, OLAF, DG AGRI, etc.).
- Please find attached the relevant proofs in the separate folder "Attachment".

**IA employees, according to the acquired knowledge and experience and in accordance with the procedures, carried out the complete process of contracting, on-site control and payment approval, which we confirm with the above-mentioned procedures that are described in detail.**

**By reviewing the findings of the AA, and the re-presentation of the evidence obtained by the user, as well as those obtained on official duty, as well as the reports from the control in the field with photo documentation, the IA cannot determine with certainty the validity of the suspicion of fraud, and the case, in accordance with the above, will refer to the Prosecutor's Office.**

**AFCOS office reply: Recommendation accepted regarding treatment of irregularities by the IPARD agency.**

IPARD agency contacted AFCOS office in January 2023 and due to the fact that IMS was not functional at the moment due to cyber-attack, they were informed in written that all documents need to be submitted via e-mail (scanned copy) or in hard copy, in order to be processed further to OLAF.

Conclusion of irregularity submitted by the IPARD agency on 13/01/2023 was quite weak and didn't include detailed explanation of the situation occurred and potential irregularities/fraud. On 16/01/2023 meeting was held, during which AFCOS office informed IPARD agency on the previously mentioned. It should be noted that one of the meeting conclusions was that in case of suspicion on fraud, official letter and supporting documents need to be submitted to Supreme state prosecutor office directly or to AFCOS office who can further arrange meeting of the AFCOS network, including representatives of the Police administration and Supreme state prosecutor office. During the meeting IPARD agency informed AFCOS office that they will perform additional on-the-spot control, upon which they will proceed as previously suggested. Moreover, AFCOS office contacted IPARD agency in order to follow-up on this and we were informed that discussion on further proceedings is still ongoing.

From the technical point of view, in person in charge for entering case in IMS do not finalize it from the point of view of approval by the superior (in accordance with 4-eyes principle), that case remains in draft and it cannot be seen by the AFCOS office for further for further action.

Conclusion on irregularity was received via e-mail on 16/05/2024 and case was classified as IRQ2 (irregularity) and not as IRQ3 (suspicion on fraud) like in the first Conclusion submitted on 12/01/2023. It should be noted that AFCOS office cannot change Conclusions made, however we can only report through IMS. However, this case is still not entered in the IMS by the IPARD agency, which is precondition for further proceedings by the AFCOS office.

**AFCOS opinion on specific case:**

- Bearing in mind that there is double financing, it is fraud (in accordance with OLAF procedures);
- OLAF need to be informed through IMS;
- All supporting documents need to be prepared and submitted for Ministry of Finance together with the Conclusion, in order to be further submitted to Supreme state prosecutor office.

**NAO/MS: Recommendation shall be followed by diligent behaviour concerning specific suspicion on the fraudulent activities**

Key issue refers to the part related to the preparation and non-processing of the draft IMS form or the paper report/conclusion and the lack of initiative by the IPA responsibilities holders from the earlier period to adequately note the PACA - Primary administrative and judicial finding, after the prepared report from the field, as and the fact that the case as such was not further processed by the Montenegrin competent authorities by the IPARD agency, especially bearing in mind that in a certain domain it could also be treated as a suspicion of potential fraud. As there was a significant passage of time from the moment of creation of the PACA to the issuance of the draft audit report containing recommendations for further processing, we believe that it is now necessary to respond urgently and in a coordinated manner to the authorities responsible for further action.

On the level of MS experience, we believe that in this sense, **and on the basis of significant indications that there is a possibility of an element of fraud**, the process should definitely be opened and the members of the AFCOS network should be informed, based on the information provided and evidence from the field, so that the competent authorities can timely and adequately approach investigative actions, **recognizing the existence of several "red flags"** concerning concrete case.

**Conclusion by the AA:** After analysing the auditee's response, AA emphasizes that it **stands by all the statements presented in the draft report. Below, AA emphasizes only certain facts that are important for the improvement of the control system.**

- The replacement is an acceptable expenditure in the List of Eligible expenditure for Measure 1 if there are justified reasons for it, such as the equipment/mechanization being amortized, planned technological advancements that make the existing equipment unsuitable in terms of technical specifications, capacity increases, etc.

In the response, it states that the recipient applied for a feeding, drinking system, ventilation, lighting, etc., for a farm where the existing equipment is old, worn out, and has frequent breakdowns. Furthermore, it states that the applicant indicated that the investment is not aimed at increasing production capacity but will contribute to improving technological production and reducing production costs. Additionally, in the reply it is stated that by analysing the on the spot report before contracting, there is no overlap of items, i.e. the requested items were not found in the recipient's farm.

However, upon analysing the offer and during on the spot, AA determined that the recipient applied for completely identical items that he already possessed, with the same technical specifications. There is no technological improvement or capacity increase involved; rather, it is a replacement of existing items, which the recipient described as worn out.

In this case, it is essential to assess the condition of the existing items, check the List of Fixed Assets to see when they were purchased, request from on the spot controllers to support all of this with relevant photos, and decide whether there is a basis for replacing the existing items.

- When the recipient applies for support, the IA is obligated to review the List of Machinery (for natural persons) or the List of Fixed Assets (for legal entities) to determine what the recipient already possesses and to eliminate the possibility of financing already existing items. If an item is not listed on the List of Machinery/Fixed Assets, the DOSC controllers state in the report what was found in the recipient's farm even though it was not reported by the recipient. In the IA's reply it is stated that controllers accidentally photographed the transporter, because it was not subject of the on the spot control before contracting. Transporter for waste management is a larger-scale item that is easily noticeable, serves the same purpose, and has the same technical characteristics as the one requested in the request for support. This clearly confirms that it was the on the spot control's obligation to record it in their report, including the serial number and other relevant data.

An even more important point than the oversight of the controls before contracting is the condition of the transporter at the time of on the spot control prior to payment, i.e., the fact that within a four-month interval, clear signs of damage and rust were present.

- Regarding the reporting of irregularities, it is evident that there were failures at multiple levels, which the provided evidences by auditee further confirm.

**As a conclusion to all the above, for all the items listed in the finding, AA considers that Article 33(3)(f) of the Sectoral Agreement has been violated, as well as Article 9(6) of the Decree on the Implementation and use of funds from the Instrument of Pre-Accession Assistance of the EU. As a result, listed items in total amount 16.530,89 EUR without VAT (EU + national contribution) are not eligible for financing through the IPARD II program. Analysing the entire case, including what IA has already rejected and what AA considers to be ineligible, AA raise questions about the intent of the recipient. Therefore, taking into account the nature of the identified irregularities, AA express suspicion of fraud and, based on Article 9(d) of the Contract for allocation of funds, propose termination of the Contract and the initiation of the process of recovering of the entire amount of support.**

***Quantification of the financial impact:*** This finding has a financial impact of 12.398,17 EUR (EU contribution) for project 22-04-1-0021.

*Note: Until the prosecution decides whether or not there has been fraud, the AA considers that the remaining amount (EUR 46.789,00) should be treated as a potential financial error.*

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

AA issued Final report on audit of operations for expenditure declared in Q1 and Q2 of FY 2024 on 1/11/2024. By analyzing the IA's reply and submitted documentation, AA notes that Conclusion on irregularity with suspicion on fraud has been prepared by the IA on 11/11/2024.

By checking the IMS, AA notes that the case has been entered on 29/11/2024 as irregularity.

On 6/11/2024, criminal charges against the recipient have been filed.

However, part of recommendation regarding recovery of funds and termination of contract is not accepted by the IA until resolving case at the level of prosecutor/relevant court of Montenegro. Therefore, decision on recovery has not been prepared, recipient is not considered as debtor by IA and thus is not presented in the Debtors ledger. Accordingly, the AA considers this finding **as open**. AA will monitor implementation of this recommendation and report accordingly within AAAR for IPARD III.

<p><b>Level of importance:</b> Major</p>	<p><b>Body and area concerned:</b> IPARD Agency</p>
<p><b>Finding number and title:</b> 2. Deficiencies related to recipient with Application ID 21 03 3 0006 (Contract reference 09 90821 224469) (ref 4.1.2. of final report of audit of operations for Q1 and Q2)</p>	
<p><b>Project(s) concerned:</b> Application ID 21 03 3 0006 (Contract reference 09 90821 224469), Measure 3</p>	
<p><b>Description of the finding:</b></p> <p><i>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</i></p> <p><i>(ii) Rules for each type of procurement and grant calls ensuring appropriate legal framework for all such commitment processes</i></p> <p>AA conducted substantive testing of recipient with Application ID 21-03-3-0006 (Contract reference 09-908/21-2244/69), project 'Procurement of meat processing equipment'. During administrative and on the spot verification, AA auditors identified some deficiencies, which are listed below:</p> <ul style="list-style-type: none"> <li>- Among others, recipient applied for purchase of Controllers with door contact (4 pieces). By analysing photos taken by DOSC controllers during on the spot check before contracting, auditors noticed that the recipient had two Controllers of the same brand (Frico) as the ones he later requested with the payment request. During the on the spot control before payment, the same 2 Controllers with door contact were presented as subject of procurement from the project in question, as was also presented to the auditors during their field check. According to the Decree on the implementation and use of funds from the instrument of pre-accession assistance of the European Union (IPARD II), Article 20, costs incurred before the conclusion of the contract are not eligible except for general costs, therefore AA considers that the amount related to the purchase of 2 Controllers with door contact is not eligible for EU funding.</li> </ul>	

- In the Contract on allocation of funds, the procurement of doors that are an integral part of the glass partition (3 pieces) was contracted, which the recipient later confirmed with an invoice, and the DOSC controllers also confirmed on the spot before payment. However, by analysing the authorization table, auditors noticed that there was a technical error in the contracting column and instead of 3 pieces, 1 piece was placed, and thus IA approved and paid the recipient only 1 piece of door. Through administrative and on the spot check, the AA auditors determined that 3 mentioned pieces of doors were contracted, invoiced, and found on the spot. Therefore, AA considers that a formal error occurred and recipient was underpaid for 2 doors.
  
- By analysing the assigned expenditure codes, auditors noticed that the item Electric grill was placed under code 3.2.2.3. For Measure 3, third public call, meat sector, code 3.2.2.3. refers to Equipment, machines and devices for:
  - Reception, storage, cutting and processing of meat;
  - Production of minced meat, meat products, mechanically deboned meat;
  - Establishment of special microclimatic and/or temperature conditions for the needs of production and/or storage of products, including equipment for air conditioning - cooling/heating, air drying/humidification;
  - Packaging and storage of finished products;
  - Handling, transportation within the plant and shipping of raw materials and finished products.

Since the electric grill is a built-in part of the kitchen in the workers' rest area, AA considers that it should have been placed under code 3.2.2.5 Machine equipment and devices for Administrative buildings (offices, workers' rest area, changing rooms, sanitary facilities), under which Production, delivery and assembly of the kitchen for workers is also included.

**Recommendation:**

The AA recommends:

- The IPARD Agency should initiate recovery of funds in amount of 292,00 EUR (EU part 219,00 EUR and national part 73,00 EUR) related to 2 Controllers with door contact. Calculation is presented below:

292,00 EUR (price of 1 Controller without VAT) x 2 pieces = 584,00 EUR (total amount of eligible cost)

584,00 EUR x 50% (support) = 292,00 EUR (amount of public support)

- According to the Exception of procedures approved by the NAO in 11<sup>th</sup> March 2024, in case of underpayments, the amount to be paid to the recipient shall be financed from national funds. Therefore, the AA recommends the IA to act in accordance with the adopted exception of procedures. Calculation of underpayment is presented below:

560,00 EUR (price of 1 door without VAT) x 2 pieces = 1120,00 EUR (total amount of eligible cost according to the Contract)

1120,00 EUR x 50% (support) = 560,00 EUR (amount of public support that was not approved and paid to recipient).

<ul style="list-style-type: none"> <li>- IA's advisors should assign expenditure codes with due diligence in order to avoid deficiencies with potential financial impacts. Although the identified deficiency does not have a financial impact, inadequate assignment of codes for eligible expenditures may lead to such occasion.</li> </ul>
<p><b>Auditee's response:</b> Recommendation accepted.</p> <p>IA will initiate procedure for recovery of funds and also the procedure regarding the underpayment.</p> <p>When entering data in excel, the wrong code was copied from the previous field. In the future, the IA will pay special attention when entering the data. It should be noted that the code list is changing within the IPARD III programme and that there is now a general list with fewer codes and it is likely that this will prevent that the same error will occur again.</p>
<p><b>Conclusion by the AA:</b> The implementation of the recommendation will be further monitored</p>
<p><b>Quantification of the financial impact:</b> This finding has a financial impact of 219,00 EUR (EU contribution) for project 21 03 3 0006</p>
<p><b>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</b></p> <p>Regarding first part of recommendation related to the initiation of recovery of funds in amount of 292,00 EUR, IA issued Recovery order on 26/12/2024. Recipient recovered requested amount on 24<sup>th</sup> February 2025. Regarding second part of recommendation related to the underpayment in amount of 560,00 EUR, it should be noted that IA made payment to the recipient from national budget on 27/12/2024.</p> <p>Regarding third part of recommendation related to the assignment of expenditure codes with due diligence, a new list of codes has been made.</p> <p>This finding can be considered as <b>closed</b>.</p>

<p><b>Level of importance:</b> Major</p>	<p><b>Body and area concerned:</b> IPARD Agency</p>
<p><b>Finding number and title:</b> 3. Deficiencies related to Recipient under application ID No. 21-01-7.1-0002, Contract no. 09-908/21-11797/39 (ref 4.1.1 of final report of audit of operations for Q3)</p>	
<p><b>Project(s) concerned:</b> ID No. 21-01-7.1-0002, Contract no. 09-908/21-11797/39, Measure 7</p>	
<p><b>Description of the finding:</b></p> <p><i>CF requirement 3. (a) – Ensuring that control activities that contribute to the mitigation of risks to the achievement of objectives are identified and developed at all levels of the organisation; (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements</i></p> <p>The AA conducted substantive and compliance testing of Recipient under application ID No. 21-01-7.1-0002 (contract reference No. 09-908/21-11797/39), who received public support in amount of 65% under Measure 7, sub-measure 7.1 - Support of investments for development of rural tourism, for “Reconstruction and conversion into a business building - “KULA 1960””. Following deficiencies have been identified:</p> <ul style="list-style-type: none"> <li>- According to the signed Contract, among others, recipient applied for purchase of item “Procurement, transport and installation of a universal shower measuring 100x100cm, shower</li> </ul>	

*cabin made of aluminium profiles in white and tempered glass. Calculation per piece of shower cabin.* Later on, the same item was invoiced, approved and paid. By analyzing photos from the IPARD Agency's on the spot control before payment, as well as during AA on the spot control, AA auditors did not confirm the presence of the shower cabin.

- Recipient has contracted and invoiced 5 pieces of bedside tables and on that basis was approved and paid for. AA auditors found 4 pieces of bedside tables.
- Contract between recipient and IPARD Agency was concluded on 15.06.2023. According to the Contract and Main project, recipient applied, inter alia for construction of a summerhouse made of sawn timber, which was planned to be open from all sides. In accordance with the procedures, the recipient submitted a request for contract modification related to *technical changes to the construction of a summerhouse made of sawn timber* in following: Reducing the opening on the western side of the summer house in dimensions of 160x120 cm, because there are constant wind gusts on the same side and it would bring rain and snow and contribute to accelerated deterioration; an opening of 160x120 cm on the southern side; the northern side to be completely closed except for the entrance and two openings of 140x160 cm on the eastern side.

During on the spot check, AA determined a different situation than that required by the Annex to the Contract, which was not presented in the IA's on the spot control reports. The built facility is closed from all sides, it has only an entrance door and two windows on one side. In order to assess appropriateness of using EU funds, AA conducted market research and determined that the requested and paid price was realistic for the firstly contracted summerhouse. Since the costs for closing the object were financed by the recipient and that, according to national legislation, the built facility is registered as auxiliary object which shall be in the service of the main object, it can be considered that this deficiency has no financial effect. However, AA consider this as a failure of controls in the sense of non-identifying the existence of a mismatch between the request for modification and the actual situation presented on the spot, leading to non-implementation of the procedure related to determining the eligibility of the expenditure, i.e. requiring an opinion on reasonableness of price, on the purpose, functionality and stability of the facility, whether the facility is registered in accordance with national regulation, etc.

- By analysing the assigned expenditure codes, auditors noticed that the item *Land development* was placed under code **7.1.1.4.** which refers to *Construction and/or reconstruction of tourism infrastructure as specified in Chapter 8.3.9 of the IPARD Programme) (thematic amusement parks, tennis courts, swimming pools, fun and recreational trails or paths - trim trails, viewpoints, panoramic roads, cycling and hiking trails)* instead of **7.1.1.2.** which refers to *Construction and/or reconstruction of the network of internal roads, parking spaces, fences, sidewalks and paths,* which was the subject of the investment.
- Finally, AA determined that the IA controllers did not use the appropriate version of the *Authorization Table DP-DAP-00-18, Manual of procedures v.2.2* and thus the recipient was underpaid in amount of 265,10 (total eligible cost) which AA confirmed through filling in the table that was valid at the time of the authorization of the recipient.

**Recommendation:**

The AA recommends following:

- The IPARD Agency should initiate recovery of funds in amount of **432,97** (EU part 324,73 EUR and national part 108,24 EUR) related to the shower cabin and bedside table. Calculation is presented below:

<p>600,00 EUR (value of shower cabin) x 65% (support) = <b>390,00</b> (amount of public support)  66,12 EUR (value of 1 piece of bedside table) x 65% (support)= <b>42,97</b> EUR (amount of public support)</p> <ul style="list-style-type: none"> <li>• IPARD Agency should carry out an ex-post control with special attention to the facility in question and confirm that it is used in accordance with the investment purpose. In the future, considering the nature and specificities of Measure 7, it is necessary that IA carry out controls with enhanced due diligence.</li> <li>• IA's advisors should assign expenditure codes with due diligence in order to avoid deficiencies with potential financial impacts.</li> <li>• According to the Exception of procedures approved by the NAO on 11<sup>th</sup> March 2024, in case of underpayments, the amount to be paid to the recipient shall be financed from national funds. Therefore, the AA recommends the IA to act in accordance with the adopted exception of procedures. Calculation of underpayment is presented below:</li> </ul> <p>265,10 EUR (total amount of eligible cost) x 65% (support) = 172,31 EUR (amount of public support that was not approved and paid to recipient).</p>	
<p><b>Auditee's response: Recommendation accepted</b></p> <ul style="list-style-type: none"> <li>• IA will initiate procedure for recovery of funds in amount of 432,97 (EU part 324,73 EUR and national part 108,24 EUR).</li> <li>• The ex-post control will monitor the case to track activities and ensure compliance with the permitted maximum capacities on the farm, as well as any potential future changes.</li> <li>• Technical error occurred and wrong code was entered in excel. In the future, IPARD agency will pay special attention to entering the codes. Moreover, it should be noted that list of codes is changing within the IPARD III program and thus there is much clearer list with fewer codes, which will decrease possibility of making technical errors.</li> <li>• IA will initiate procedure for the underpayment in amount of 172,31 EUR.</li> </ul>	
<p><b>Conclusion by the AA:</b> The implementation of the recommendation will be further monitored.</p>	
<p><b>Quantification of the financial impact:</b> This finding has a financial impact of 324,73 EUR (EU contribution) for project ID No. 21-01-7.1-0002</p>	
<p><b>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</b></p> <p>Decision on recovery of funds was issued on 05<sup>th</sup> March 2025. Recovery has not been done yet. Therefore, AA considers this finding <b>as open</b>. AA shall monitor further implementation of given recommendation and report about it in the part for follow up of IPARD II findings within AAAR for IPARD III.</p>	

<p><b>Level of importance:</b> Major</p>	<p><b>Body and area concerned:</b> IPARD Agency</p>
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<b>Finding number and title:</b> 4. Administrative error related to Recipient under application ID No. 21-01-7.1-0013, Contract no. 09-908/21-11938/40 (ref 4.1.1. of final report of audit of operations for Q4)	
<b>Project(s) concerned:</b> ID No. 21-01-7.1-0013, Contract no. 09-908/21-11938/40, Measure 7	
<p><b>Description of the finding:</b>  ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements</p> <p>The AA conducted substantive testing of Recipient under application ID No. 21-01-7.1-0013 (contract reference No. 09-908/21-11938/40), who received public support in amount of 65% through Measure 7, sub-measure 7.1- Support of investments for development of rural tourism for project “Family house”.</p> <p>Recipient submitted offer for, among others, lawn installation. This item was not contracted as it does not comply with the Annex 2 to the public call List of eligible expenditures.</p> <p>However, during the authorization of the payment request, the IPARD Agency included the lawn installation item in the DP-DAP-00-18 Authorization table, resulting in with an ineligible amount of <b>373,76€</b>.</p>	
<p><b>Recommendation:</b>The AA recommends following:</p> <ul style="list-style-type: none"> <li>The IPARD Agency should promptly return to the EU budget funds in amount of public support <b>242,94 EUR</b> (EU part 182,21 EUR and national part 60,73 EUR)</li> </ul> <p>Calculation is presented below:</p> <p>973,28 EUR (Approved amount by IPARD Agency for group of works where lawn installation is included)</p> <p>–</p> <p>599,52 EUR (Amount calculated without lawn installation) = 373,76 EUR x 65% (support) = <b>242,94 EUR</b> (amount of public support)</p>	
<p><b>Auditee's response: Recommendation accepted</b>  IA will initiate procedure for recovery of funds in amount of 242,94 EUR (EU part 182,21 EUR and national part 60,73 EUR)</p>	
<p><b>Conclusion by the AA:</b> The implementation of the recommendation will be further monitored.</p>	
<p><b>Quantification of the financial impact:</b> This finding has a financial impact of 182,21 EUR (EU contribution) for project ID No. 21-01-7.1-0013</p>	
<p><b>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</b>  AA issued final engagement report on 11<sup>th</sup> March 2025. Finding remains <b>open</b>. AA will follow up actions taken by the auditee and report within AAAR for IPARD III.</p>	

<b>Level of importance:</b> Major	<b>Body and area concerned:</b> IPARD Agency
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<b>Finding number and title:</b> 5. Shortcomings in processing of payment requests (ref 4.1.2. of final report of audit of operations for Q4)
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**Project(s) concerned: /**

**Description of the finding:**

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

During substantive testing of the sample withdrawn for audit of operations for expenditure declared to the EC in fourth quarter of FY 2024, AA identified several shortcomings in processing of payment requests by the IA, which are listed below:

- Regarding recipient with application ID 23-05-1-0317 (Contract reference 09-908/23-16787/31):
  - Recipient submitted a Request for interim payment in April 2024 as well as a Request for final payment in August 2024. In the sample for audit of operations, the final payment has been sampled. By analysing the documents for payments, AA noticed that recipient submitted a Request for final payment in amount 226.858,47 EUR, which was supported with two invoices from 18/4/2024 (238.408,32 EUR) and from 30/7/2024 (226.858,47 EUR). In order to understand the process and exclude the possibility of double funding, AA requested payment documents related to interim payment. AA noticed that invoice from 18/4/2024 was taken into account for Request for interim payment, while the information and amount requested in the Request for final payment corresponds to the information and amount of invoice from 30/7/2024. The recipient also submitted a statement that he requests payment for item Manure Spreader which was included in Invoice from 18/4/2024 and which was not paid through the Request for interim payment due to the delay in the customs declaration and asks the IA to take this item into account when making the final payment, which is what IA did. However, a shortcoming is identified in the Decisions for payment for both requests, since in the Decision for payment for interim it is stated that the payment request is accepted, when in fact less was accepted and does not include information that the recipient waived from the item Manure spreader at that stage. Also, the final payment decision states that the final payment request is accepted, but in fact the amount from the final payment request is accepted, increased by the Manure spreader amount. The amounts in the payment decisions are correct, but they do not match the payment requests amount and information. During the administrative and on the spot control, the AA confirmed the investment and that it has been implemented within the time frame defined by the contract and that there is no financial impact. However, AA considers that this shortcoming led to inadequate audit trail and absence of explanation for document discrepancies.
  - Recipient inter alia, applied for a drone-based plant protection system DJI Agras T50, which was contracted and paid for. On the delivery note from “Agroauto” dated on 30.07.2024., number 24-300-000836, following serial numbers of the drone were stated:

1581F5FKC242U00E7NZ5 and 7TNBLLP0030266

However, during on-the-spot control before payment, conducted on November 2024. by IA, DJI T50 (same model) drone was found but with different serial numbers:

1581F6BUB2354001025B and 63YBLBM002005G.

This observation was noted in the report conducted by IA. However, no further conclusions nor explanations were made by IA on this difference in numbers.

During AA on-the-spot control, conducted on 17.02.2025. the same serial numbers for DJI T50 were found, as the ones found during IA on-the-spot control. During the contradictory procedure, AA received an explanation from the supplier "Agroauto" that during compilation of the documents, a technical error occurred with the serial numbers. However, AA considers that this shortcoming led to inadequate audit trail and absence of supplier/producer's explanation of the difference in serial numbers.

- Recipient with application ID 23-05-1-0276 (Contract reference 09-908/23-16504/21) was contracted for project `Purchase of mechanisation` in amount 112.569,21 EUR (total eligible expenditure). Recipient submitted Request for interim payment in amount of 80.704,13 EUR accompanied by Invoice No 24-300- 000660 from 28/6/2024. Decision for interim payment was prepared in correct amount 80.704,13 EUR, meaning that for final payment amount of 31.865,08 remains to be paid. Later on, recipient submitted the Request for final payment accompanied by Invoice No 24-300-000820 from 29/7/2024, which was subject to AA's sample for audit of operations. AA notes that amount in the Invoice is correct 31.865,08 EUR, while Request for final payments contains all the information from the invoice that was subject to interim payment (number, date, amount, etc.). During audit work, AA confirmed that the recipient completed the investment according to the contract requirements and that IA paid the correct amount to the recipient. Therefore, EU and national budget were not harmed. However, this type of negligence in preparing payment documents indicates a shortcoming in processing of payment requests.

**Recommendation:**

*AA recommends working with due diligence in order to avoid the same or similar situations. All counted shortcomings do not have financial impact. AA's finding aims at raising awareness on the observed shortcomings*

**Auditee's response: Recommendation accepted**

The Q4 2024 was very challenging for the IPARD Agency, due to the increased volume of work and the deadlines for the payment of the support funds of the closing IPARD II program. Although at certain moments there were challenges especially for Unit for Authorisation of IPARD Payments, we emphasize that all efforts were made to minimize any errors. Fortunately, as already concluded, there were no financial consequences in the mentioned case. In the future, IA will work with due diligence, in order to further reduce any possibility of occurrence the same or similar situations

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

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

**Actions taken by the auditee to mitigate the risk that the error is repeated in the future:** *Taking into account the closure of the IPARD II programme, AA considers this finding as closed. AA highlights that special attention will be paid to the issues presented in this finding during future audit work for IPARD III programme.*

## **5.8.2. Non-operational transactions**

### **5.8.2.1. Substantive testing of irregularities/debts**

The AA performed dual purpose testing, i.e. substantive and compliance testing of irregularities/debts.

#### Findings:

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

- 1) Deficiencies in compiling Annual declaration of accounts (D2)

#### Assessment:

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

### **5.8.2.2. Substantive testing of advances**

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

#### Findings:

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

#### Assessment:

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

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

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

#### Findings:

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

#### Assessment:

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

## **5.9. Details of the total error rate<sup>30</sup> and residual error rate<sup>31</sup>**

The information is presented in section 5.7.1

### **5.10. Comparison of the total error rate with the materiality level of 2%, in order to ascertain if the population is materially misstated and the impact on the audit opinion**

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<sup>30</sup> 'Total error rate' means total errors divided by the population

<sup>31</sup> 'Residual error rate' for IPARD is not calculated

This part refers to **IPARD II**. There were no payments for IPARD III and therefore, no declared expenditure.

AA calculated error rate following requirements from the DG AGRI Guideline no 2 on the Audit Strategy. The results are presented in Section 5.7.1 of this Report. The method of obtaining the error rate is presented in Annex 2 to this Report. As a result of audit of operations for FY 2024, the AA issued 4 findings with financial corrections regarding following recipients:

1. Application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43) – Based on audit work, AA identified an irregularity in amount EUR 12.398,17 (EU part). Given the nature of the irregularity which is presented in details in Section 5.8.1 (Finding No 1), the AA raised question about the intent of the recipient and issued a finding Irregularity with suspicion of fraud. Accordingly, AA recommended the IA to initiate the recovery of funds. Additionally, in line with Article 51 of the FWA, AA recommends to the NAO and IA to follow the requirements in order to examine the potential presence of intentional fraudulent behaviour.
2. Application ID 21-03-3-0006 (Contract reference 09-908/21-2244/69) - Based on audit work, AA identified an irregularity in amount EUR 219,00 (EU part) which is presented in details in Section 5.8.1 (Finding No 2). IA initiated the procedure for recovery of funds and funds have been recovered to the IEA.
3. Application ID No. 21-01-7.1-0002 (Contract no. 09-908/21-11797/39) – AA identified an irregularity in amount EUR 324,73 (EU part) which is presented in details in Section 5.8.1 (Finding No 3). IA initiated the procedure for recovery of funds, Decision has been prepared, however, funds have not been recovered to the IEA yet.
4. Application ID No. 21-01-7.1-0013 (Contract no. 09-908/21-11938/40) – AA identified an administrative error and recommended IA to initiate recovery of funds in amount EUR 181,21 (EU part). IA accepted AA's recommendation and shall act accordingly.

Since AA conducted random sampling, according to the Guideline, sum of errors classified as random is EUR 13.124,11 (EU part), while amount of sampling is EUR 2.462.624,08 (EUR part). Accordingly, error rate is 0,53%, which is below the materiality level. AA conducted substantive testing on 70 operations (20% of 347), out of which, 10 operations were subject to compliance testing as well. AA conducted comprehensive administrative and on the spot verifications for sampled 70 operations, and confirmed that the management and control system put in place functions properly.

As regards irregularity with suspicion on fraud (Application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43)), auditors conducted procedures of administrative nature, aiming to assess the legality and regularity of the implementation of the project. As a result, AA identified an irregularity in amount of EUR 12.398,17 (EU part). Further, AA issued a recommendation to submit the case to the prosecutor in order to detect and investigate operations to provide evidence for the intention to defraud. Therefore, following the principle of proportionality, in the calculation of the error rate is included only the amount of determined irregularity. In case of a court decision determining fraud, the total amount of the project shall be included as error. Therefore, the AA considered it necessary to draw attention to the issue presented in this part and accordingly, included an emphasis of matter in the Annual audit opinion. The auditor's opinion is not modified in respect of the matter emphasized.

#### **5.11. Details of any financial adjustments/corrections before submitting the annual financial reports or statements/annual accounts to the Commission**

There weren't any self-corrections during the FY 2024.

**5.12. Details of whether any problems identified were considered to be systemic in nature**

AA did not identify any problems to be considered systemic in nature.

5.13. Information on the follow-up of audits of operations carried out in previous years

AAAR	Finding	Follow-up January 2025
<b>Findings and recommendations identified during audit of operational transactions from final reports issued on 11th March 2024 – 3011-2-06-174 including relevant management response</b>		
<p>1.</p> <p>Refer to Audit of operations Final report (11/03/2024)</p> <p>4.1.1</p>	<p><b>Undefined procedure related to VAT exemption in specific situations</b>  <b>Level of priority: Major</b>  <b>Body/ies concerned by the finding: NAO/ IPARD Agency</b>  <i>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</i>            According to Article 28 (2) a) of Framework agreement (hereinafter: FWA):            '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.'            Furthermore, in accordance with Rulebook on Value-Added Tax Exemptions (OG 080/22) Article 13a Exemption from VAT payments for projects financed by the European Union it is prescribed that Importer, supplier of products, service provider, i.e. beneficiary of donations, for the purpose of proving the right to exemption from VAT, encloses a statement that the referred products and services meet the conditions for VAT exemption.            The state administration body responsible for the area in which the EU assistance project is being implemented, i.e. Directorate for Payments issues a certificate for VAT exemption. VAT exemption is based on the total amount of the contract, including EU funds and co-financing funds.            AA conducted substantive and compliance testing for operational transactions declared to the EC in Q4 for FY2023 and determined undefined obligation of IA related to VAT exemption in some specific situations.            - By analyzing procedures and conducting administrative verification of sampled recipients, AA noted that after signing contracts for allocation of funds between IA and recipients, invitations for offers are published. On the basis of the received offers, recipient signs contracts with suppliers and after that submits request for exemption from VAT for the amounts specified in the offers. However, the amount of offers received from suppliers does not have to be equal to the amount of eligible costs defined in the contract with IA or equal to the amount that will be accepted and paid by the IA after the investment is completed.            Namely, by administrative verification of two recipients who were sampled in the Q4 , AA identified that:            a. the amount of the offer for which exemption from VAT was requested and approved (EUR 29,247.70) was higher than the amount of eligible costs under the contract with IA (EUR 28,898.84), difference EUR</p>	<p><b>Open</b></p> <p>Taking into consideration the closure of the IPARD II programme, implementation of this recommendation will be monitored and reported within AAAR for IPARD III.</p>

348.86, for which recipient received exemption from VAT even though this part was not accepted as eligible cost according to the contract

b. the amount of offers for which exemption from VAT was requested and approved (EUR 84,075.62) was greater than the amount of eligible costs that was approved and paid to the recipient by IA after the investment was completed (EUR 82,477.71), difference EUR 1,597.91, for which recipient received exemption from VAT even though IA did not accept this part as eligible to be paid

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

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

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

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

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

The AA recommends following:

- To define procedure and steps for exemption from VAT in situations where inconsistencies occurred between the invoiced and the contracted or paid amount by IA, in order to VAT exemption rule apply in accordance with all positive regulations.
- To update Annex DP-DPAP-00-20 Contract for allocation of funds, Article 8, point 39 with "or unacceptable amounts from the invoice".

	<p>- NAO/IA in cooperation with institutions relevant for tax system should find a solution to provide the recipients right to obtain a VAT exemption through refund, when ex-ante VAT exemption is not technically and/or practically feasible, in accordance with Article 28 of the FwA</p> <p><b>AA reply 2024:</b> The implementation of the recommendation will be further monitored.</p>	
<p>2.</p> <p>Refer to Audit of operations Final report (11/03/2024)</p> <p>4.1.2</p>	<p><b>Administrative error regarding recipient with ID No. 21-03-1-0067 (Contract ref. No. 09-90822-2818)</b> <b>Level of priority: Intermediate</b> <b>Body/-ies concerned by the finding: IPARD Agency</b></p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>During compliance testing of recipient with application ID No. 21-03-1-0067 and Contract No. 09-908/22-28/18, the AA auditors have identified inadequate authorized and paid amount.</p> <p>Namely, recipient submitted Payment request with attached invoice in amount 28.746,94 EUR (without VAT) and bank statement in amount 28.746,40 EUR, i.e. 0,54 EUR less than invoiced amount. During authorization of the request and supporting documentation, IA advisors noticed and stated the difference in annex DP-DAP-00-07-1 Check list for completeness and compliance for M1, however, they authorized invoiced amount, instead of actual paid amount to the supplier. According to Guideline No 5, AA considers it an undue payment made by IA, i.e. an administrative error. According to Article 41(8) of the SA, part of the expenditure affected by such error should not be supported by the Fund or, if detected after it has been declared, should be promptly deducted from the next quarterly and annual expenditure declarations. Considering that error is detected after it has been declared to the EC, according to Section 2.6.2.1 Deduction of administrative errors, the unduly paid amount should be returned by the national authorities to the EU budget irrespective of the state of play of the recovery procedure (even before or in the absence of an actual recovery from the recipient).</p> <p>AA recommends the IA to return the undue amount due to administrative error (0,54 EUR * 65% = 0,35 EUR (public support), EU part 0,26 EUR) to the EU budget by reducing the next expenditure declaration. In addition, the amount deducted should be credited to the IPARD Euro account in line with the SA.authorization process itself.</p> <p>In order to ensure sound financial management, regardless of whether the amount of discrepancy is significant or not, authorization of payment request should be conducted with due diligence, with the aim of protecting EU and national funds.</p> <p><b>AA reply 2024:</b> Implementation of the recommendation will be further monitored</p>	<p><b>Closed</b></p> <p>AA confirms that Decision on recovery is from 18/04/2024, recovery was done on 19/04/2024 and the recovery is deducted from the D1 for QII 2024. Therefore, AA considers this finding as <b>closed</b>.</p>

**Findings and recommendations identified during audit of operational transactions from final reports issued on 24th January 2024 – No. 3011-2-06-62 including relevant management response**

<p>1.</p> <p>Refer to Audit of operations Final report (24/01/2024)</p> <p>4.1.1</p>	<p><b>Inadequate assessment of reasonableness of prices by Evaluation Committee regarding application ID 22-04-3-0003, Contract reference 09-908/22-3210/29</b></p> <p><b>Level of priority: Major</b> <b>Body/ies concerned by the finding: IPARD Agency</b></p> <p><i>ICF requirement 3 (a) Selection and development of control activities ensuring that the control activities include, inter alia, the following:</i> <i>(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</i> <i>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</i></p> <p>According to the Manual of procedures version 2.3, Part II, 1 Sector for structural support, 3 DTEA, Annex DP-DTEA-00-02, Guideline for the work of the Evaluation Committee, tasks of the Committee are, among others, to perform verification of all the investments (equipment and construction) within Measure 3, based on its skills, professional experience, market research, communication with the local and foreign suppliers and other sources.</p> <p>The AA conducted substantive and compliance testing of Recipient under application ID No. 22-04-3-003, Contract reference 09-908/22-3210/29, who received public support in amount of 50% through Meat sector under Measure 3, for “Investment in equipping facilities for the production of meat products”.</p> <p>During administrative verification, AA identified inadequate assessment of reasonableness of prices by Evaluation Committee (hereinafter: EvC) for certain items.</p> <p>More precisely, the IA requested EvC opinion on reasonableness of prices of items from “FrigoElektro” LTD offer, on 8th September 2022 and received opinion on 31st October 2022 that all prices from the offer are realistic.</p> <p>Among others, the recipient has applied for following items with offered prices (excl. VAT):</p> <ol style="list-style-type: none"> <li>1. Generator CAJN 45-19Z SFERA with Rivacold evaporator RSI3250ED – 3.050,00 EUR</li> <li>2. Generator CAJN 45-19Z SFERA with Rivacold dual flow evaporator RDF3250 – 3.050,00 EUR</li> <li>3. Generator DANFOSS with 2 pieces of Rivacold dual flow RDF 4250 evaporators – 7.152,00 EUR</li> <li>4. Knee operated sink, 480*340*480 mm – 425,00 EUR.</li> </ol>	<p><b>Open</b></p> <p>Conclusion on irregularity was prepared on 4/3/2024. Decision on recovery is prepared on 08/04/2024. Recipient did not recover the funds and filed a lawsuit against IA. Therefore, AA considers this finding as open.</p> <p>AA auditors in FY 2023 identified irregularity regarding recipient with ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29) and issued finding with above-mentioned financial impact. But, due to wrong interpretation of Decision for recovery of funds, IA advisors responsible for preparation of Debtors Ledger and D1s treated this debt as administrative error instead of irregularity. Following procedures for administrative errors, <u>IA deducted this amount in first next quarterly declaration (D1 Q2) but funds were not credited to the IPARD Euro Account by national authorities in line with Article 41(8) of the SA.</u> Later on, IA detected this omission and included this recipient in Debtors Ledger in December 2024. However, amount of 2.743,80 EUR was not taken into account correctly during preparation of D2. Bearing in mind that this was treated as administrative error, recovery is reported to EC through D1 for IIQ 2024. From 23/05/2024 the IA started calculating interest for this debt.</p>
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After analysing submitted offer from "FrigoElektro" LTD, EvC reply and supporting documents, as well as IA on the spot report, auditors noticed that items listed in the offer and purchased by the recipient differ from those listed by EvC for price comparison. Therefore, AA conducted market research and identified that prices for listed items are not reasonable.

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

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

AA research determined following prices for listed items:

1. Generator CAJN 45-19Z SFERA 576,00 EUR + Evaporator Rivacold RSI3250ED 573,00 EUR= 1.149,00 EUR

2. Generator CAJN 45-19Z SFERA 576,00 EUR + Rivacold dual flow evaporator RDF3250 551,00 EUR = 1.127,00 EUR

¶ For item no. 3 EvC stated following: "The price in amount 7.152,00 € (excl. VAT) is realistic. It is using equipment by 2 different manufacturers. A total of 3 pieces of equipment that are implemented in a single device".

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

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

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

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

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

Based on AA work, the offered prices are higher than the prices obtained by conducted market research.

Amount calculated by AA (1.149,00 EUR + 1.127,00 EUR + 3.281,00 EUR + 225,00 EUR=5.782,00 EUR

excl. VAT) plus variation of 10%, taking into consideration distance in price verification time, installation, import taxes, etc., can be accepted as a reasonable, i.e. 5.782,00 EUR + 10% = 6.360,20 EUR excl. VAT.

	<p>The AA recommends the following:</p> <ul style="list-style-type: none"> <li>- In line with Article 5, point 12 (f) of the Contract for allocation of funds, AA recommends the IPARD Agency to initiate recovery of the funds in amount of 3.658,40 EUR (EU part 2.743,80 EUR and national part 914,60 EUR).</li> </ul> <p>Calculation is presented below:  Price paid by IA in amount of 13.677,00 EUR - AA market research price plus variation of 10% 6.360,20 EUR = 7.316,80 EUR (difference)  7.316,80 EUR x 50% (support) = 3.658,40 EUR (amount of public support)</p> <ul style="list-style-type: none"> <li>- AA recommends the EvC to carry out assessment of prices in a more responsible way, especially when information on items from offer are characterized by high level of attainability.</li> </ul>	
<p>2.</p> <p>Refer to Audit of operations Final report (24/01/2024)</p> <p>4.1.2</p>	<p><b>Ineligible expenditure related to Recipient under application ID No. 21-03-1-0009, Contract no. 09-908/21-15025/26</b>  <b>Level of priority: Major</b>  <b>Body/ies concerned by the finding: IPARD Agency</b></p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>The AA conducted substantive and compliance testing of Recipient under application ID No. 21-03-1-0009 (contract reference No. 09-908/21-15025/26), who received public support in amount of 65% through Olive sector under Measure 1, for "Project of planting 2 ha of olive trees in the area of Donji Zagarač". According to the signed Contract, among others, the Recipient purchased 800 wooden polls in dimensions 5x200 cm, as well as equipment for irrigation system.</p> <p>During the administrative and on the spot verification of the contracted and paid items, the AA identified a deficiency related to wooden polls, which were foreseen to be purchased, in order to support olive plants' proper growth. The number of wooden polls (800 of them) corresponds to the number of olive plants stated in the contract. During IA on the spot control before payment, controllers stated in their report that: "Wooden polls 5x200: in the Invoice, there are 800 of these items, OTSC found 942 pieces, that are not of the same diameter and height.". During the AA on the spot control, the auditors found a similar number of wooden polls (957) as IA controllers. However, AA determined that these wooden polls are not the ones that were supposed to be purchased through the invoice - as they were hand-made, of different diameters and heights, which is accompanied with sufficient photo-documented evidence acquired by AA. Therefore, the auditors concluded that the amount of support for 800 wooden polls was incorrectly authorized and paid to the recipient.</p> <p>Additionally, the AA identified a deficiency with possible financial impact related to elements of the irrigation system. According to the Invoice for irrigation system, among others, recipient purchased 10 pieces of Plastic</p>	<p><b>Closed</b></p> <p>AA confirms that Decision for recovery of funds was issued on 13/02/2024 in total amount of 1,568.56 EUR. Recipient recovered funds on 13/03/2024. Recovery is reported to EC through D1 for IQ 2024. Therefore, AA considers this finding as <b>closed</b>.</p>

	<p>jumbo valve boxes 14 (hereinafter: valve boxes). In IA on the spot control report before payment, it is stated that IA found 6 out of 10 valve boxes that were contracted and consequently, the recipient was authorised and paid in the amount equivalent to the value of 6 valve boxes. However, the IA controllers did not provide photo-documented evidence of all 6 found valve boxes, as they provided evidence for only one valve box.</p> <p>On the other hand, considering the size of the plot and because the grass has grown, the AA auditors have not been able to determine the locations of the valve boxes. Auditors had found only 1 valve box, which matches with what IA documented with photos.</p> <p>The AA recommends the following:</p> <ul style="list-style-type: none"> <li>- The IPARD Agency should initiate recovery of funds in amount of 1.461,15 EUR (EU part 1.095,86 EUR and national part 365,29 EUR) related to the wooden polls.</li> </ul> <p>Calculation is presented below:  2,8099 EUR (price of 1 wooden poll without VAT) x 800 (number of wooden polls) = 2.247,92 EUR (total amount of eligible cost)  2.247,92 EUR x 65% (support) = 1.461,15 EUR (amount of public support)</p> <ul style="list-style-type: none"> <li>- The IPARD Agency should perform additional on the spot control, in order to find, document by photos and mark on the plot map locations of 5 valve boxes that could not have been found by AA. In case where IA cannot find the missing valve boxes, IA should: Initiate recovery of funds in amount of 107,41 EUR (EU part 80,56 EUR and national part 26,85 EUR) related to the value of 5 valve boxes, as approved and paid to the recipient.</li> </ul> <p>Calculation is presented below:  33,0496 EUR (value of 1 valve box without VAT) x 5 (number of valve boxes) = 165,25 EUR (total amount of eligible cost)  165,25 EUR x 65% (support)= 107,41 EUR (amount of public support)</p> <p><b>AA reply 2024:</b>  Remains open  Implementation of the recommendation will be further monitored</p>	
<p>3.</p> <p>Refer to Audit of operations Final report (24/01/2024)</p> <p>4.1.3</p>	<p><b>Deficiencies in process of contracting and procurement procedure related to recipient with application ID 22-04-3-0003/ contract reference 09-908/22-3210/29</b></p> <p><b>Level of priority: Major</b></p> <p><b>Body/ies concerned by the finding: IPARD Agency</b></p> <p>ICF requirement 3 (a) Selection and development of control activities ensuring that the control activities include, inter alia, the following:</p> <ul style="list-style-type: none"> <li>(ii) Rules for each type of procurement and grant calls ensuring appropriate legal framework for all such commitment processes</li> <li>(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</li> </ul>	<p><b>Closed</b></p> <p>Taking into consideration closure of IPARD II, AA considers this finding as closed. AA will pay special attention to this issue during audits of IPARD III programme.</p>

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

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

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

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

By analyzing the offer and submitted technical specifications, the AA also noticed that some of the items from offer are not well defined in quantity. For example, for item no. 14 Equipment for ripening (cooling unit, water heater, evaporators, air deflectors, electrical control panel for regulating temperature and air humidity) it is stated 1 piece, without any technical specification, nor additional explanation, while according to AA on the spot control, auditors have found 3 cooling units, 1 water heater, 2 evaporators, 5 air deflectors and 1 electrical control panel, as integral parts of ripening equipment.

Further, the AA determined inconsistency in units of measures of certain items in the offer. Namely, items no. 6-8 refers to polyurethane panels, but for item no. 6 it is stated 19 pieces, for items no. 7, 102.4 m<sup>2</sup> and for item 8, 92 m<sup>2</sup>, while for item no. 9 which is related to installation of those panels, as measure unit is stated piece, concretely 212.5 pieces.

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

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

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

	<p>Since drawing up final opinion on the reality of prices is responsibility of DTEA, AA considers that there was a failure of controls within DTEA, because they did not identify deficiencies in the content of the submitted offer and in supporting documents.</p> <p>Besides the fact that offer was submitted without detailed technical specification, with obvious inconsistency in quantity and measure units, the IA accepted it as appropriate and signed contract on support with recipient. According to the Manual of procedures version 2.3, Part II, 1 Sector for structural support, DPAP, Chapter 5.11. after signing the Contract with IA, the recipient is obliged to perform public procurement by announcing the invitation for offers which gives opportunity to different independent suppliers to submit offer before payment. Since Invitation for offers shall follow technical specifications from contracted offer, all above mentioned led to a new deficiency - content of invitation for offers itself.</p> <p>Namely, Invitation for offers was published without sufficiently defined technical specifications, with no conformity in quantities and/or measure units.</p> <p>AA considers that publishing invitation for offers in such a way can jeopardize the entire procurement process and lead to confusion among potential bidders about what exactly is required by the invitation.</p> <p>AA recommends IA that during contracting, they should take into consideration only offers with detailed technical specifications and clearly indicated quantities and units of measurement in order to finalize the process of procurement and realization of the project in an adequate way.</p> <ul style="list-style-type: none"> <li>- AA recommends IA to issue a mandatory instruction to the applicants when filling out an invitation for offers that all items should be unambiguously determined, (where it is possible) measurable and with sufficient technical specifications to allow different bidders to apply.</li> </ul> <p><b>AA reply 2024:</b> The implementation of the recommendation will be further monitored.</p>	
<p>4.</p> <p>Refer to Audit of operations Final report (24/01/2024)</p> <p>4.1.4</p>	<p><b>Absence of questions related to the additional public aid within eligibility check list for Measure 1</b></p> <p><b>Level of priority: Intermediate</b></p> <p><b>Body/-ies concerned by the finding: IPARD Agency</b></p> <p><i>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements</i></p> <p>Article 15 of the “Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union” (hereinafter: Decree):</p> <ul style="list-style-type: none"> <li>- Support funds for the implementation of Measure 1 can be allocated for investments whose total amount of eligible costs is in range from €10,000 to €500,000.</li> <li>- Funds from paragraph 1 of this article are allocated up to 60% of the amount of approved eligible costs.</li> <li>- Funds from paragraph 1 of this article are allocated in the amount of up to 65% of the approved eligible costs for an agricultural holding whose owner is less than 40 years old at the time of submitting the request for support.</li> <li>- Funds from paragraph 1 of this article are allocated in the amount of up to 70% of the approved eligible costs for agricultural holding in the mountainous area.</li> </ul>	<p><b>Closed</b></p> <p>Given the nature of the findings and closure of IPARD II programme, AA considers this finding as closed.</p> <p>AA notes that DP-UPAP-00-06 Completeness and eligibility checklist for measure 1 - investments in physical assets of agricultural holdings for IPARD III programme has been updated with questions regarding additional public aid.</p>

	<p>- Additional 10% of support funds referring to the funds from para. 2, 3 and 4 of this article, can be assigned for part of approved eligible costs related to the management, storage of manure and other waste from agricultural production.</p> <p>During compliance testing, the AA auditors identified absence of questions within Annex "DP-DPAP-00-07 Eligibility check list for M1" related to the fulfilment of requirements that provide additional public aid through measure 1.</p> <p>Namely, mentioned check list does not contain question regarding age of owner of agricultural holding as well as question whether agricultural holding is located in the mountainous area, which is presented in paragraph 3 and 4 of Article 15 of Decree.</p> <p>On the other hand, checklist contains a scoring table, where Altitude and Age of the applicant are presented as ranking criteria. Advisors for advertising and authorisation of projects fulfil this part of the checklist when checking conditions for additional public aid. Since this part of the checklist is related to ranking of projects and mentioned ranking criteria are presented in the context of assigning ranking scores, the AA considers that questions related to altitude and age of the applicant should be included in the part where all eligibility requirements are checked.</p> <p>The AA wants to emphasise that during compliance testing of sampled projects in previous years, did not identify any error regarding this issue, which means that IA advisors check these requirements.</p> <p>The AA recommends the following:</p> <p>- IA should update and harmonize annex "DP-DPAP-00-07 Eligibility check list for M1" in accordance with Article 15 of Decree, regarding additional public aid, in order to avoid possible assignment of incorrect public aid to recipients.</p> <p><b>AA reply 2024:</b></p> <p>Taking into consideration that table "Review table - Ranking criteria" has a different purpose, the AA considers that including of these questions would not be repeating, but ensuring adequate control of all eligibility requirements.</p> <p>The implementation of the recommendation will be further monitored</p>	
<p>5.</p> <p>Refer to Audit of operations Final report (24/01/2024)</p> <p>4.1.5</p>	<p><b>Inadequate code of eligible expenditure under application ID No. 21-03-1-0009, Contract no. 09-908/21-15025/26</b></p> <p><b>Level of priority: Minor</b></p> <p><b>Body/-ies concerned by the finding: IPARD Agency</b></p> <p>List of eligible expenditure for implementing measures under IPARD II programme is presented as Annex 2 to the "Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union" (hereinafter: Decree) as well as Annex 1 to the public calls. For each investment activity that is eligible for financing, there is a corresponding specific code from the List of eligible expenditure.</p> <p>According to DPAP Manual of Procedures version 2.3, while performing the eligibility check of the application, advisors for advertising and authorization of projects shall check the eligibility of each investment activity (item) from the offers received by recipients and mark the appropriate codes from the List of eligible expenditure.</p>	<p><b>Closed</b></p> <p>Given the nature of the finding and closure of IPARD II, AA considers this finding as closed</p>

During compliance testing of recipient with application ID No. 21-03-1-0009 and Contract No. 09-908/21-15025/26 (Project of planting 2 ha of olive trees in the area of Donji Zagarač), under Measure 1, the AA auditors have identified inadequate assigned codes to the certain eligible expenditures within Contract for allocation of funds.

Namely, for the offer related to: transportation of the necessary planting material, mechanical excavation of the hole, removal of the barren part from the pit and backfilling of the hole, as well as for the offer for ground preparation (preparation of the geodetic base, staking out places for planting, grubbing and removal of existing vegetation, etc.) advisors wrongly assigned code 1-3.2.2, which refers to "Equipment for raising, restructuring perennial plant crops (poles, wires, anchors, cables, clips, tensioners and for land preparation)". The AA considers that investment activities from the mentioned offers refer to code 1-3.1.11 which implies "Investments in the preparation and improvement of land for existing plantings and plantings that will be established during the realization of this investment (e.g. anti-erosion activities, drainage, terracing and land conversion)".

The AA recommends the following:

- IA's advisors should authorize projects with due diligence in order to avoid deficiencies with potential financial impacts. Although the identified deficiency does not have a financial impact, inadequate assignment of codes for eligible expenditures may lead to such occasion.

**AA reply 2024:**

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

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

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

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

The implementation of the recommendation will be further monitored.

**Findings and recommendations identified during audit of operational transactions from final reports issued on 10<sup>th</sup> November 2023 – No. 3011-2-06-521 including relevant management response**

<p>1.</p> <p>Refer to Audit of operations Final report (10/11/2023)</p> <p>4.1.2</p>	<p><b>Inadequate controls during authorization of Payment request under application ID No. 22-04-3-0023 (Contract ref. No. 09-908/22-3211/14)</b></p> <p><b>Level of priority: Intermediate</b></p> <p><b>Body/-ies concerned by the finding: IPARD Agency</b></p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>During compliance testing of recipient with application ID No. 22-04-3-0023 and Contract No. 09-908/22-3211/14 (project: “Improvement of fruit processing technology”), under Measure 3, the AA auditors have identified inadequate control during authorization of Payment request, related to documents accompanying the Request itself as well as report from on the spot control conducted by IA.</p> <p>Namely, the AA auditors identified that one of the invoiced items within invoice from FrigoElektro llc, No. 242/2023 was Low-pressure steam generator EK 150, but within custom declaration instead of this type of steam generator, it is stated Low-pressure steam generator Šukoplam 350. According to the photos from OTSC taken by IA, the AA found that Šukom was written on the Low-pressure steam generator, but in the OTSC report it is stated that due to absence of the serial plate, controllers could not identify the type of generator. Further, the IA did not require any explanation from the recipient and/or supplier and did not ask Evaluation Committee for an opinion regarding value of the new type of item, which is prescribed by MoP version 2.3, although the discrepancies were obvious. Consequently, DAP advisors through document DP-DAP-00-18 Authorization table, authorized Low pressure steam generator EK 150, although a low-pressure steam generator from a different brand was purchased.</p> <p>On the other hand, by analysing the control lists of the IA, the AA determined that mentioned control failure is also caused by the lack of an adequate question within DP-DAP-00-07-3 Check list for completeness and compliance for Measure 3 related to checking whether the equipment of the same brand was purchased as it was contracted. The missing question is already included in the DP-DAP-00-07-1 Check list for completeness and compliance for Measure 1, and in case of discrepancy, i.e. when purchasing equipment of a different brand from the contracted one, the procedures to be followed are exactly described.</p> <p>Taking into account all of the above, the AA conducted a market research related to the actual purchased item and determined that the Low-pressure steam generator Šukoplam 350 has better technical specifications and higher price than Low-pressure steam generator EK 150 which was contracted. Thus, the AA determined that EU funds are not affected due to noticed deficiency.</p> <p>The AA recommends the following:</p>	<p><b>Closed</b></p> <p>Taking into consideration nature of the recommendation and closure of the IPARD II programme, AA consider this finding as closed. The AA will pay special attention to issues presented within this finding during audit work for IPARD III</p>
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<p>2.</p> <p>Refer to Audit of operations Final report (10/11/2023)</p> <p>4.1.3</p>	<p><b>Inconsistency in the relevant documents and on the spot under application ID No. 22-04-1-0076 (Contract ref. No. 09-908/22-6766/19)</b> <b>Level of priority: Intermediate</b> <b>Body/-ies concerned by the finding: IPARD Agency</b> ICF requirement 3. (a)(v) payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements. ICF requirement 2. (c) ensuring that irregularities noted lower down in the organisation are reported appropriately and followed-up, including protection for "whistle-blowers". During compliance testing of recipient under application with ID No. 22-04-1-0076 (Contract ref. No. 09-908/22-6766/19), the AA's auditors have identified certain shortcomings regarding inconsistency in the relevant documents accompanying request for payment and on the spot control report conducted by IA. Namely, recipient had submitted Payment request with accompanying documents, where it was stated that he acquired, among others items, a trailer manufactured by Fermak (price 6.260,00 EUR), with carrying capacity of 6 tons and hydraulic brakes. The mentioned trailer from Fermak manufacturer with above specified characteristic was stated in offer made by supplier "Agroauto" LLC, contract between recipient and supplier, invoice, as well as in traffic license. However, during on the spot control conducted before payment, the IA's</p>	<p><b>Open</b></p> <p>By insight into the Irregularity Management system, AA noted that this case has not been reported as irregularity. AA considers that cases like this should be reported as irregularities, in order to pay more attention in the event that the same supplier and/or recipient subject to this finding appears. Therefore, finding remains open. AA will monitor implementation of this recommendation and report accordingly within the AAAR for IPARD III.</p>

controllers from Division for On-the-spot control (hereinafter DOSC) instead of Fermak, found a Tan Agro trailer, with the same technical characteristics, including the same serial number. Based on the Report from on the spot control, Unit for advertising and authorization of projects requested from Unit of Technical and Economic Analysis (hereinafter UTEA) an opinion regarding reasonableness of price for the Tan Agro trailer. According to UTEA's opinion price of 6.260,00 EUR was assessed as nonrealistic for Tan agro trailer because it is more than 15% and less than 30% percent higher than price obtained by contacting another supplier. Consequently, accepted and paid price for the Tan agro trailer was 5.544,59 EUR, which means that there was no misuse of EU funds.

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

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

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

Bearing in mind the fact that it was purchased item from another manufacturer and not the one which was stated in the relevant documents (supplier's offer, contract between recipient and supplier, invoice, traffic license), it is necessary to monitor similar cases with due diligence especially when it comes to the above-mentioned supplier. Therefore, such cases should be treated as irregularities. Taking into account that IA had checked market price of the trailer from Tan agro manufacturer and in accordance with that, accepted price reduced by 12%, this case should have been recorded as irregularity without financial impact. This further implies that in described situation, employees of the Division for Authorization of Payments did not follow prescribed steps in MoP of preventing, detecting and proceeding in case of irregularities and frauds according to which: "When reported formally and in written form, the employee is obliged to confirm in written factual findings of the reported events on the Report on suspected/detected irregularity (DP-01-01) within three days after discovery of the irregularity and to submit it to IO".

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

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

**AA reply January 2024:**  
Remains open

By inside into the Irregularity Management system, AA noted that this case has not been reported as irregularity. AA considers that cases like this should be reported as irregularities, in order to pay more attention in the event that the same supplier and/or recipient subject to this finding appears.

	<p>Taking into consideration nature of the recommendation, implementation will be monitored within following audits in FY 2024:</p> <p>Considering that the IPARD Programme is continuing, this case should be reported as irregularity without further delay in order to pay more attention in the event that the same supplier and/or recipient subject to this finding appears.</p>	
<p>3.</p> <p>Refer to Audit of operations Final report (10/11/2023)</p> <p>4.1.4</p>	<p><b>Non-compliance of IA's procedures with Decree for implementation of measures regarding interim and advance payments</b></p> <p><b>Level of priority: Intermediate</b></p> <p><b>Body/-ies concerned by the finding: IPARD Agency</b></p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>Article 38 of “Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union”:</p> <p>Paragraph 1: The recipient of the support can submit a request for payment after completion of investment or requests for payment after completion of phases of the investment, within the deadline determined by contract on the allocation of funds.</p> <p>Paragraph 2: If the recipient submits a request for payment by phases of the investment (interim payment, the part of the investment for which the request is submitted must be a functional unit in accordance with the contract on the allocation of funds.</p> <p>Paragraph 5: If the recipient submits an interim payment request, he/she cannot submit a request from Article 35(a) of this Decree (request for advance payment).</p> <p>During administrative verification of interim payments declared in first two quarters of FY 2023, the AA auditors identified a non-compliance of IPARD Agency's check lists for authorization of payments (MoP version 2.3) with Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union.</p> <p>Namely, DP-DAP-00-07 Check list for completeness and compliance and DP-DAP-00-13 Checklist for advance payment do not contain any question regarding paragraph 5 of article 38 of Decree, which prescribes that recipient who has used the advance payment option, cannot apply for the interim payment. Furthermore, within DP-DAP-00-07 Check list for completeness and compliance there is no question regarding paragraph 2 of the Decree, which confirms whether part of the investment for which the interim payment request was submitted, is a functional unit. Mentioned check list also does not contain question whether total amount of support is paid in a maximum of three interim payments, as defined in the annex DP-DPAP-00-20 Contract for allocation of funds.</p> <p>According to conducted audit, the AA determined that IA enters information on paid advances and interim payments in the annex DP-DAP-00-19 Authorization letter. However, since the preparation of the annex DP-DAP-00-19 Authorization letter is the last step in the process of authorization of payment, the AA considers that questions related to requirements from the Decree and Public call must be included at the very beginning of the checklists, in order to know whether the payment requests should be processed at all.</p>	<p><b>Closed</b></p> <p>Based on received exception as well as nature of the finding and closure of IPARD II programme, AA considers this finding as closed.</p>

	<p>The AA recommends the following:</p> <ul style="list-style-type: none"> <li>• IPARD Agency should update and harmonize DP-DAP-00-07 Check list for completeness and compliance and DP-DAP-00-13 Checklist for advance payment in accordance with article 38 of Decree and MoP version 2.3, in order to avoid wrongly authorization of interim and advance payments requests and to facilitate the monitoring of the use of funds.</li> </ul> <p>Auditor's final conclusion: The implementation of the recommendation will be further monitored. AA conclusion January 2024: Remains open</p> <p>New Decree on the Implementation and Procedure for the Use of Funds from the Instrument for Pre-Accession Assistance of the European Union" was published in the official gazette on 29th December 2023, which enables recipients to use advance and interim payments and according to which if the recipient submits a request for payment by stages of the investment, only part of the investment that refers to the construction of the building must be fully functional.</p> <p>However, public calls have been published according to the previous version of the Decree and accordingly, IA has to update procedures in order to align them with the new Decree. Thus, the implementation of the finding will be further monitored.</p>	
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**Findings and recommendations identified during system audit final report issued on 21st January 2019 – No. 3011-1-06-389/3 including relevant management response**

<p>1.  Refer to Audit of operations Final report (26/01/2022)</p> <p><b>4.1.1</b></p>	<p><b>Deficiencies in the process for verification of reasonableness of costs</b> <b>Body/ies concerned: IPARD Agency</b> <b>Level of priority: Intermediate</b></p> <p>ICFR 3(a) Selection and development of control activities-ensuring that the control activities include, inter alia, the following: (iii) Procedures, including checklists, for each step of procurement and grant calls (e.g. technical specifications, evaluation committees, reporting of exceptions etc.) ensuring each member of staff is clear as to their responsibilities in these areas.</p> <p>During compliance testing, the AA determined that there are several deficiencies in the process of verification of reasonableness of costs, which lead to the inefficiency of the process itself:</p> <ul style="list-style-type: none"> <li>- 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.</li> </ul> <p>On the other hand, in Engagement contracts (Annex B - Consultants reporting obligations) signed between the Ministry of Agriculture, Forestry and Water Management (hereafter: MAFWM) and members of the EvC, it is stated that the EvC shall issue reports and outputs within 7 working days from the day of receiving request by the IA. The AA considers that the difference between the deadline in procedures (2 months) and contracted deadline (7days) is substantial, and accordingly, the IA shall define some middle ground between these two deadlines for receiving opinion by the EvC, in order to get the most reasonable price in the most efficient time.</p>	<p><b>Closed</b></p> <p>Considering the scope of work, the number of applications as well as the nature of the findings and the closing of the IPARD II program, this finding can be considered closed.</p>
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<p>In addition to the general deficiencies outlined above, the AA, during compliance testing noticed some other deficiencies in the work of the EVC in specific cases of recipients, which are presented below:</p> <ul style="list-style-type: none"> <li>- 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</li> </ul> <p>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.</p> <ul style="list-style-type: none"> <li>- Recipient with Application ID no. 19-02-3-0049 (Contract ref.no.321-4467/19-26) – Equipment for production-meat sector <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> </li> </ul> <p>The AA is aware that received offers are from reputable meat processing machine manufacturers. However, considering that equipment from the meat sector is very specific and expensive, when EVC gives an opinion on the reasonable of prices only on the basis of professional experience, it is necessary to explain its answer in more detail in order to provide an adequate audit trail, especially bearing in mind that EVC's assessment will be used for comparison with another offer in the future.</p> <p>As several projects in the field of meat processing, mushrooms, wine production, etc. have been processed by the IA under the IPARD II programme, it means that IA and EVC already have a base with prices of production equipment. However, when comparing offers, they should also take into account production capacity, type and other important characteristics, in order to provide an adequate opinion on the reasonableness of prices.</p> <p>The AA recommends the IA to:</p>	
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	<ul style="list-style-type: none"> <li>- 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,</li> <li>- 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.</li> </ul> <p><b>AA reply January 2024:</b> Partially closed Conducting audits during 2023, the AA found that the period of 2 months between requesting an opinion of EvC and issuing an opinion, on a sample of 8 recipients, in 4 of them was breached, thus, AA considers since neither this deadline of 2 months is not respected, this part of the finding remains open.</p>	
<b>Findings and recommendations identified during audit of operational transactions from final reports issued on 10th February 2021 – No. 3011-2-06-87</b>		
<p>1.</p> <p>Refer to Audit of operations Final report (10/02/2021)</p> <p>4.1.2</p>	<p><b>Unequal approach of the evaluation committee</b> <b>Body-ies concerned: IPARD Agency</b> <b>Level of priority: Major</b> ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements. 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"> <li>1) reference price database and or</li> <li>2) comparisons of different offers; and or</li> <li>3) evaluations of the evaluation committee.</li> </ol> <p>During administrative verification of recipient under application ID no 18-01-1-0303, we have identified unequal approach in the work of the evaluation committee (hereinafter EC) related to the verification of reasonableness of prices. Namely, among other items, the recipient has applied for construction of a photovoltaic system (solar panels) and submitted an offer from company “BB Solar” LLC . The IA requested EC's opinion on the reality of “BB Solar” LLC offer prices in April 23th, 2019 and received the opinion that the prices offered were realistic without any documented market research. On June 11th, 2019, after changes occurred during processing of application, for the second time the IA requested opinion of the EC on the reality of the amended offer prices and received the same answer that the prices are realistic without any document confirming the given opinion. After signing the contract between recipient and IA, the recipient requested a change in the type of contracted items for construction of solar panels, which was approved by Annex 1. Accordingly, the IA requested a new opinion from the EC on November 18th, 2019 about the reality and reasonableness of the offered prices in line with approved changes. Based on the documentation from the IA, for the first time the EC researched the market for some items from the “BB Solar” LLC offer and gave the opinion that the prices are realistic. However, based on EC offer analysis, the AA identified that the price of the grid inverter (2.480,00€ without VAT) is not realistic because the price is for 583.43€ higher than the price obtained by market research, i.e. the average</p>	<p><b>Open</b></p> <p>By DG AGRI Letter PRE/2021/001/ME/FIL – Ares (2024) 4170287 – 10/6/2024 DG AGRI maintains its position, indicating deficiencies related to the assessment of the reasonableness of costs, the composition of the Evaluation committee and the technical experience of its members. DG AGRI agrees with the opinion of the AA that the IPARD Agency's practice for evaluation of the offers was not compliant with the relevant procurement procedures. Therefore, the amount of EUR 2 102.24 represents a risk to the Fund and is maintained in the error calculation. AA's recommendation remains the same - The IPARD Agency should initiate recovery of funds related to construction of photovoltaic system in amount of 2.802,98€ which presents total public contribution out of which 2.102,24€ is EU part and 700,74€ national part Having in mind closure of IPARD II programme, implementation of the recommendation will be monitored through Audit Authority activities for IPARD III.</p>

price (1.896,56€). In the opinion of the EC it is stated that although the price of this item is not realistic, it can be accepted as realistic because the difference (583,43€) makes only 3% of the total offer and that it is an equipment of a reputable manufacturer. On the other side, within the same case file price for part of equipment "AMK 127 mulching kit" produced by reputable manufacture "Stihl" is not accepted as realistic because the offered price is more than 30 % higher than the average price found by market research. Based on AA calculation, the offered price is 30.76% higher than the average price and as such is not realistic. According to EC procedures price that shall be accepted in such cases is average price plus variation of 5%, i.e. 1.991,39 € (1.896,56 €+ 5%). Besides for solar panels, unequal approach of the EC was identified in the opinion about the offer for well drilling and irrigation system received by "Indel Inzenjering" LLC. The EC, without documented market research, gave opinion that the offer is realistic.

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

Auditor's final conclusion:

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

The implementation of the recommendation will be further monitored.

AA conclusion January 2022:

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>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. AA conclusion January 2023: Remains open The AA had insight into EVC's minutes for work and determined certain improvements regarding EVC's procedures, but these improvements are not relevant for this finding considering that EVC assessed this project much earlier than the EVC minutes (attached within reply) were adopted. In addition, the AA's assessment of deficiency regarding determination of the reasonableness of prices for the construction of the photovoltaic system, remains the same. Therefore, in line with Article 5, point 6 (f) of the Contract, the AA recommends the IPARD Agency to initiate recovery of funds related to construction of photovoltaic system in amount of 2.802,98€ which presents total public contribution out of which 2.102,24€ is EU part and 700,74€ national part. <b>AA reply 2024:</b> Remains open AA's recommendation remains the same. The IPARD Agency should initiate recovery of funds related to construction of photovoltaic system in amount of 2.802,98€ which presents total public contribution out of which 2.102,24€ is EU part and 700,74€ national part. DG AGRI Letter PRE/2021/001/ME/RCOL – Ares (2023) 3223301 – 08/05/2023 also states that the reasonableness of cost was not assessed properly by the IPARD Agency. The implementation of the recommendation will be further monitored.</p>	
<p>2.  Refer to Audit of operations Final report (10/02/2021)  4.1.5</p>	<p><b>Failure in notification about performed hidden works</b> <b>Body/-ies concerned: IA</b> <b>Level of priority: Intermediate</b> ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements. 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.” 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</p>	<p><b>Closed</b>  AA confirms that IPARD Agency has incorporated into procedures, through a Contract for allocation of funds, the obligation for recipients to report hidden works and this finding can be considered as closed.</p>

	<p>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>We recommend 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>Auditor's final conclusion: The implementation of the recommendation will be further monitored.</p> <p><b>AA reply 2024:</b> Partially closed During audit of operational transactions in FY 2023, the AA determined that recipients who were obliged to provide evidence about hidden work, submitted pictures and videos of mentioned works. However, until adoption of exceptions regarding hidden works, the implementation of the recommendation will be further monitored.</p>	
<b>Findings and recommendations identified during audit of operational transactions from final reports issued on 4<sup>th</sup> March 2020 – No 3011-2-06-113 including relevant management response.</b>		
<p>1. Refer to Audit of operation Final report (04/03/2020)</p> <p>4.1.3</p>	<p><b>Disrespecting of visibility procedures related to EU contribution</b> <b>Body/-ies concerned: IPARD Agency</b> <b>Level of priority: Intermediate</b> ICF requirement 3. (a)(iv) Publicity rules and procedures ensuring that the legislative requirements are fulfilled. According to Annex 8 of the Sectoral Agreement, the operating structure and the recipients shall take the steps necessary to provide information to, and communicate with, the public on operations supported by an IPARD II programme.</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</p>	<p><b>Closed</b> AA determines that procedures for IPARD III are in line with Guidance on the responsibilities of recipients concerning information and communication toward the public Ares (2020)2698488 from May 25th, 2020. This finding can be considered as closed.</p>

<p>of submitting payment request. By signing the contract, the recipient has assumed the obligation and responsibility to comply with the requirements. One of the requirements is to label the investment, regardless of the risk of part or the entire project being rejected.</p> <p>Auditor's final conclusion:</p> <p>According to the Regulation (EU) No. 1303/2013, Annex XII, part 2. (2.2.) and Sectoral Agreement, Annex 8, part 2. (2.2.) recipient's responsibilities include respecting visibility requirements not only after the final payment, but also during the implementation of the operation. At the same time mentioned regulation doesn't require amount of paid support indicating on billboard/ posters/plaques (as stated in management response) but the financial support from the Union which could be in the practice percentage of co-financing rate of EU contribution.</p> <p>Agency should take actions in adapting the procedures for adequate control over visibility requirements. The implementation of the recommendation will be further monitored.</p> <p><b>AA conclusion January 2024:</b> Remains open</p> <p>IA did not implement recommendation of this finding. Namely, procedures are not harmonized with Guidance on the responsibilities of recipients concerning information and communication toward the public Ares (2020)2698488 from May 25th, 2020.</p> <p>The implementation of the recommendation will be further monitored.</p>	
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**5.14. 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.

**5.15. Description (where applicable) of specific deficiencies or irregularities related to financial instruments**

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

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

Results of the audit on sampled transactions confirm assessment presented in matrices, part 4.8 of this report. Management and control system functions effectively, but further improvements are necessary, particularly for the part "control activities: Validation and authorisation – administrative controls" as well as "control activities: Debts management", as presented in sections 4.4 as well as 5.8 of this Report.

Considering that IA declared 142 payments in FY 2023 and 349 payments in FY 2024, there was a significant increase of workload which created possibility for errors due to the complexity and culmination of the whole process of implementation of the IPARD II Programme. Montenegro has spent most of the funds planned for 2024. Despite this result, 411.800,02 EUR remained on the IEA account on 31<sup>st</sup> December 2024.

The AA's sample covered 70 transactions (20% from the sum of final and interim payments) which were tested within substantive testing, while for 10 of them AA conducted tests of controls. As a result of audit work, 4 deficiencies with financial impact were identified in amount of 13.124,11 EUR, but none of them indicate that errors have systematic nature. For each identified deficiency, AA assessed the level of importance, quantified the financial impact (if any) and draw recommendations, which are presented in relevant sections within this Report. The corrective actions proposed aim to improve the management and control systems. With regard to irregularities identified and related financial errors, relevant provisions of the Sectoral and Framework Agreements should be followed in the efficient manner.

Considering expenditures in amount of 11.664.945,00 EUR, error amount is significantly below the level of materiality, i.e. error rate is 0,53% and leads to overall conclusion that the controls are functioning properly. However, in order to draw attention to the information presented in Section 5.10. to this Report, the AA issued an audit opinion with emphasis of matter.

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

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

The audit body that has carried out audit of the annual financial reports/annual accounts is Audit Authority of Montenegro. The AA, carried out audit work, following section 8 of Guideline 2, in order to verify the completeness, accuracy and veracity of the annual accounts. There were no other bodies/persons involved in audit of accounts.

AA conducted separate audit of accounts for IPARD II and III programme. List of AA team members involved in audit of annual accounts for both programmes is presented below:

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant / certified auditor	Part of the AAAR
			General	IPARD			
AA	Rina Mucaj Demirovic	Authorized Auditor / Head of Department for audit of the program of agricultural and rural development	12 years and 9 months	11 years and 9 months	P	Certified auditor/ State auditor	All listed members were involved in the preparation of this Report
	Marko Tomčić	Authorized Auditor	6 years and 11 months	6 years and 11 months	P	Certified auditor/ State auditor	
	Marija Perović	Authorized Auditor	8 years and 3 months	8 years and 3 months	P	Certified auditor/ State auditor	

### 6.2. Description of audit approach used to verify that the annual financial reports or statements/annual accounts are complete, accurate and true

The AA conducted separate audit of accounts for IPARD II and IPARD III. Audit for IPARD II was carried out in line with the Audit Strategy 2024-2026 for IPARD II and Audit Authority's manual of procedures v.1.2., while Audit of IPARD III was carried out in line with Audit Strategy 2024-2026 for IPARD III and AA's Manual of procedures for IPARD III, v.1.0.

For both audits, AA followed requirements presented in DG AGRI Guideline no 2 Audit Strategy and Guideline no 5 Annual Accounts.

As regards IPARD II, the audit of accounts was focused primarily on the information in the financial reports submitted by the NAO on 14<sup>th</sup> February 2025, taking into consideration quarterly declarations of expenditure submitted to the European Commission for the financial year 2024 (in April, July, October 2024 and January 2025) as well as accounting records and other information received from the NFD and IPARD Agency.

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

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

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

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

As regards IPARD III, Montenegro did not declare any expenditure yet and accordingly, there were no transactions on IPARD III Euro Account (except pre-financing payment). Audit was limited to the volume of Union funds on the MF-AB IPARD Account transferred for the purpose of pre-financing. Therefore, the focus of the audit was on the Annual Declaration of Accounts for financial year 2024 (D2), i.e. form of D2, issued by NAO, Annual Management Declaration as well as verification of accuracy of financial reports (Balance Sheet, Income Statement and Cash Flow Statement of the IA).

### **6.3. Conclusions drawn from the audits in relation to the completeness, accuracy and veracity of the annual financial reports or statements/annual accounts**

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

AA conducted general reconciliations in line with Part 8 of the Guideline No 2. Results are presented in Section 5.4 to this Report Based on the above mentioned, the AA concluded that the annual accounts (financial reports and statements) submitted to the European Commission for financial year 2024 for IPARD II programme are complete, accurate and veracious in all material aspects, and have been prepared in accordance with the requirements, except issues identified and presented in findings below.

Findings:

**1) Deficiencies in compiling Annual declaration of accounts (D2)**

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

**Level of priority:** *Intermediate*

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

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

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

*(a) the revenues and the expenditure of the IPARD II programme, showing Union, national and total revenues and expenditure summarised by measures and presented on an annual basis and submitted using Form D 2 as set out in Annex 6 to this Agreement;*

*(b) a table of differences by IPARD II programme and measure, between the expenditure and the revenues declared in the annual accounts and that declared for the same period in the documents referred to in Article 37 of this Agreement, accompanied by an explanation for every difference;*

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

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

*According to Guideline No 5 IPARD Annual Accounts, row Total should present total net amount of EU part of expenditure made in the financial year considered to be legal and regular by the NAO.*

*According to Guideline No 5 IPARD Annual Accounts, row Total amount of outstanding debt at 31.12. should present amount of EU principal part of debts outstanding on 31/12/N, 24:00.*

*According to the Article 41(8) of the Sectoral Agreement, the NAO and the IPARD Agency shall ensure that any amount which they find has been paid in excess of the sum due, and which has been incorporated in certified statements of expenditure in accordance with Article 37, is transferred within ten working days in the IPARD euro account and is deducted from the next payment request to the Commission.*

*According to Guideline No 5 IPARD Annual Accounts, in case it is detected that an amount constituting an administrative error has already been declared, it should be promptly deducted from the next quarterly and annual expenditure declarations. In practice this would mean that in case of administrative errors the unduly paid amount is returned by the national authorities to the EU budget irrespective of the state of play of the recovery procedure (even before or in the absence of an actual recovery from the recipient).*

During audit of accounts for FY 2024, the AA auditors identified following deficiencies regarding compiling the financial reports which were sent to the EC on 14<sup>th</sup> February 2025:

- Form D2 – Annual declaration of accounts for financial year 2024, issued by NAO, does not contain relevant information regarding outstanding debts. Point 4 of this document contains following statement: “The declaration includes all debts which have been registered for less than two years. The total amount of these debts at the end of the year to which this declaration refers amounts to 0,00 euros.” This is not correct because closing balance of registered debts (principal) in Debtors Ledger on 31.12.2024 is 196.565,70 EUR.

Furthermore, this document does not contain updated number of last Commission Decision regarding adoption of IPARD II Programme.

- Form D2 – Annual declaration of accounts for financial year 2024, issued by IPARD Agency, does not present correct information about total amount of declared expenditures in 2024 as well as information about total amount of outstanding debt at 31.12.2024. This deficiency is related to deduction of debt referred to recipient with ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29) in amount of 2.743,80 EUR (EU part). AA auditors in FY 2023 identified irregularity regarding this recipient and issued finding with above-mentioned financial impact. But, due to wrong interpretation of Decision for recovery of funds, IA advisors responsible for preparation of Debtors Ledger and D1s treated this debt as administrative error instead of irregularity. Following procedures for administrative errors, IA deducted this amount in first next quarterly declaration (D1 Q2) but funds were not credited to the IPARD Euro Account by national authorities in line with Article 41(8) of the SA. Later on, IA detected this omission and included this recipient in Debtors Ledger in December 2024. However, amount of 2.743,80 EUR was not taken into account correctly during preparation of D2. Namely, amount of declared expenditures regarding Investments in physical assets concerning processing and marketing of agricultural and fishery products, which is stated in D2 (1.637.842,33 EUR), does not present correct net amount because amount of 2.743,80 EUR was not included in calculation, and consequently, total amount of declared expenditures which is stated in form D2 for 2024 (11.689.936,22 EUR) does not present total net amount, although all “negative amounts (recoveries, overpayments, written off amounts)” should be deducted from gross amount of expenditures. Furthermore, even after including this recipient in the Debtors ledger, this amount was not included in calculation for closing balance of Debtors Ledger, i.e. total amount of outstanding debt at 31.12.2024 in D2 does not contain amount of 2.743,80 EUR, since this amount is already deducted from the D1 for Q2 of FY 2024, even though the money is not credited to IEA.

Furthermore, form D2 – Annual declaration of accounts for financial year 2024, issued by IPARD Agency, does not contain information related to IPARD II programme and Commission reference number (CCI), which was prescribed in Annex 6 of the SA.

- Balance sheet at 31.12.2024, issued by IPARD Agency, does not contain correct amounts in column Closing balance at 31.12.2023, regarding off balance records (CLASS 9). Namely, amounts from closing balance on accounts 91 and 96 in Balance sheet at 31.12.2023 were not correctly presented in Balance sheet at 31.12.2024. Instead of amount 20.765.056,99 EUR, it is stated amount 18.816.234,44 EUR. In communication with IA, AA auditors were informed that it was a technical error.

**Recommendation:**

The AA recommends following:

- Form D2 – Annual declaration of accounts, issued by NAO, should be fulfilled with adequate data in order to provide correct information for the financial year in question.
- Form D2 – Annual declaration of account as well as quarterly declarations (D1s), issued by IPARD Agency, should be prepared with due diligence in accordance with Guideline No 5 IPARD Annual Accounts in order to adequately present amounts of net expenditures and outstanding debts. For AA, finding related to recipient with ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29) in amount of 2.743,80 EUR is result of an irregularity and thus, it should be treated as debt.
- Financial reports should be prepared with due diligence, respecting international accounting standards and generally accepted practice.

**AA follow up status:** Given the closure of the IPARD II, AA considers this finding **as closed**. During the audit work for IPARD III, AA will pay special attention to identified deficiencies presented in this finding.

## 2) Shortcoming related to recording interest in General ledger

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

**Level of priority:** *Intermediate*

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

Bearing in mind the above-mentioned requirements and generally accepted accounting practice, AA auditors identified a shortcoming during the audit of Annual Accounts regarding the recording recovered interest on debts in General ledger of NF.

Recipient with ID No. 18-01-1-0297 (Contract reference: 321-1294/18-14) recovered debt in amount of 300,70 EUR (principal 300,00 EUR and interest 0,70 EUR). NF recorded interest on account 431 (Interests used for national co-financing - this account is used for recording of using of interest earned instead national contribution), instead of respecting book-keeping steps for Recovery of funds to the EC in case of earned interest from the late payments for recoveries from beneficiaries presented in NF Manual of procedures for Accounting (page 15). Following these steps, interest should be recorded on account 115-7 (receivables for interest on debts).

Due to wrong recording of interest, total assets differ from total liabilities in the Balance sheet from 31.12.2024. Total assets amount is 582.345,64 EUR while total liabilities amount is 582.344,94 EUR and thus Balance sheet shows a difference of 0,70 EUR.

### **Recommendation:**

The AA recommends preparing annual accounts with due diligence and respecting international accounting standards and generally accepted practice.

**AA follow up status:** Given the closure of the IPARD II, AA considers this finding **as closed**. During the audit work for IPARD III, AA will pay special attention to identified deficiencies presented in this finding.

As regards IPARD III, AA received Annual declaration of accounts issued by the NAO as well as management declaration for FY 2024. Based on audit work on a limited scope, AA concluded that the annual accounts (financial reports and statements) submitted to the European Commission for financial year 2024 for IPARD III programme are complete, accurate and veracious in all material aspects, and have been prepared in accordance with the requirements, except issues identified and presented in findings below.

#### Findings:

##### **1) Deficiency in compiling Balance sheet**

II. RISK ASSESSMENT - 6.5. *Financial reporting objectives.* Financial reporting objectives are consistent with the accounting principles required by the Commission.

**Level of priority:** *Intermediate*

**Body/-ies concerned by the finding:** *IA*

During audit of accounts for IPARD III for FY 2024, AA auditors identified a shortcoming regarding compiling the Balance sheet on 31.12.2024 related to accounts of class 9.

Namely, Balance sheet does not present correct amounts regarding closing balance of accounts 91 (Off balance record – debit) and 96 (Off balance record – credit). In the closing balance of Balance sheet accounts 91 and 96 are amounted to 81.975,94 EUR while correct amount is 81.975.947,00 EUR, which is adequately recorded in General ledger.

#### **Recommendation:**

The AA recommends following:

- Financial reports should be prepared with due diligence, respecting international accounting standards and generally accepted practice.

#### **AA follow up status: Open**

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

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

## **7. OTHER INFORMATION**

### **7.1. Audit Authority's assessment of the cases of suspicions of fraud detected in the context of their audits**

During audit work in FY 2024, AA detected one case with suspicion of fraud. Namely, as a result of compliance and substantive testing of expenditure declared to the Commission in first and second quarter of FY 2024, AA identified one irregularity with suspicion of fraud which is presented in Section 5.8.1 to

this Report (Finding: Control deficiency and irregularity with suspicion on fraud regarding application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43)). Relevant information is presented below:

- **Application ID No.:** 22-04-1-0021
- **Contract ref. No.:** 09-908/22-6408/43
- **Measure and Public call:** Measure 1, Fourth public call
- **Project title:** `Procurement of equipment and machinery needed for broiler farm`
- **Amount of public support:** 78.916,23 EUR (59.187,17 EU part + 19.729,06 national part)
- **Short summary of the circumstances of the case:**

During audit work AA auditors noticed that some of the items which were presented as subject of audited IPARD II contract had visible traces of rust and damage. Therefore, AA considers that Article 33(3)(f) of the Sectoral Agreement has been violated, as well as Article 9(6) of the Decree on the Implementation and use of funds from the Instrument of Pre-Accession Assistance of the EU. Further, AA noticed that part of the procurement should not have been contracted at all, since replacement of equipment is not an eligible expenditure according to the List of the eligible expenditure for Measure 1. The total amount of detected irregularities is 16.530,89 EUR (12.398,17 EU part + 4.132,72 National contribution).

Additionally, AA identified several deficiencies during the project circle (in contracting, on the spot, approval of payment, reporting on irregularities) which are presented in detail in the finding.

Analysing the entire case, including the fact that IA had rejected several items from payment request and what AA as a result of administrative and on the spot verification considered to be ineligible for payment, AA raised questions about the intent of the recipient. Therefore, considering the nature of the identified irregularities, AA expressed suspicion of fraud and in line with Article 51 of the FWA, AA recommended to the NAO and IA to follow the requirements in order to examine the potential presence of intentional fraudulent behaviour.

- **Identification of other people involved in the fraud case, especially if it involves a conflict of interests situation:** N/A
- **Amount involved in the fraud case:** 12.398,17 EU part (EU contribution)
- **Measures implemented or to be implemented to detect and prevent this type of fraud and to recover the amounts unduly paid:**
  - IA issued Conclusion on irregularity with suspicion on fraud on 11/11/2024,
  - Case has been entered in the IMS on 29/11/2024,
  - Criminal charges against the recipient have been filed on 6/11/2024,

However, given the nature of the finding, AA recommended initiation of the recovery of funds, which is not accepted by the IA until resolving case at the level of relevant court of Montenegro. Therefore, IA did not prepare a Decision on recovery of funds, recipient is not considered as debtor and thus is not presented in the Debtors ledger.

- **The state of play on the investigation (for the suspicion of fraud cases) and next steps foreseen:** Criminal charges against the recipient have been filed on 6/11/2024, no further information has been received
- **Any other relevant information or documentation:**

Total number of payments declared to the EC in FY 2024 is 347. Following Guideline No 2 and the assessment of the ICF of IA in previous year as `works`, AA have conducted comprehensive substantive testing on 20% of the total number, i.e. on 70 operations as well as compliance testing on 10 operations. Since based on audit work, there were no other cases with the same or similar characteristics, AA considers this deficiency specific related to this project/recipient. In case the relevant court confirms the fraud, AA shall include in the error calculation the total amount of the support.

**7.2. Subsequent events occurred after the end of the financial year and before the transmission of the annual audit activity report to the Commission and considered when establishing the level of assurance and opinion by the Audit Authority**

IPARD II

Based on communication with the IPARD bodies and received evidence, AA confirms that recipient with ID No 21-03-3-0006 (Contract ref. No. 09-908/21-2244/21) recovered on 24<sup>th</sup> February 2025 the total amount of irregularity identified by the AA. Namely, AA detected an irregularity in total amount of 292,00 EUR (EU part 219,00 EUR and national part 73,00 EUR). Decision on recovery of funds was issued on 26<sup>th</sup> December 2024.

As regards irregularity related to the recipient with ID No 21-01-7.1-0002 (Contract ref. No. 09-908/21-11797/19) in total amount of 432,97 EUR (EU part 324,73 EUR and national part 108,24 EUR), IA prepared Decision on recovery of funds on 05<sup>th</sup> March 2025. Funds have not been recovered yet.

IPARD III

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.

**7.3. Any other relevant information, considered important to communicate to the Commission**

Pursuant to Article 9(4) of Commission Implementing Regulation (EU) No 447/2014 and Regulation (EU, Euratom) 2018/1046, Art 155 by 15<sup>th</sup> February of the following FY, the NAO shall, with a copy to the NIPAC and the AA, provide the Commission with an Annual Management Declaration per programme drawn up in accordance with Annex C to the FWA covering and Annex C of the FFPA:

- 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;
- the conformity of the system and the effective functioning of the management and control system in the previous year.

In the Annual Management Declarations for FY 2024 submitted by NAO to EC, No. 08-908/25-3163<sup>32</sup> on 14<sup>th</sup> February of 2025, the NAO declared that:

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<sup>32</sup> Cover Letter No

For IPARD II:

- 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.

For IPARD III:

- the information in the annual accounts, annual financial reports or statements is properly presented, complete and accurate,
- the expenditure entered in the annual accounts, annual financial reports or statements complies with applicable law and was used for its intended purpose,
- the management and control system put in place for the programme gives the necessary guarantees concerning the legality and regularity of the underlying transactions.

Beside above mentioned, Declaration for IPARD II is subject of reservation regarding Control environment:

- Due to reorganization on the level of the Government of Montenegro occurred on July 23rd 2024, new ministries were established covering areas of environment and climate changes as well and employment and social policy and this has an impact on the previously established MCS. Adoption of upgraded Decision on the appointment of officials responsible for carrying out the functions in relation to indirect management of pre-accession funds of the EU needs to be conducted.

Declaration for IPARD III is subject of reservation regarding Control environment:

- due to reorganization on the level of the Government of Montenegro occurred on July 23rd 2024, new ministries were established covering areas of environment and climate changes as well and employment and social policy and this has an impact on the previously established MCS. Adoption of upgraded Decision on the appointment of officials responsible for carrying out the functions in relation to indirect management of pre-accession funds of the EU needs to be conducted.
- IPARD Agency premises – work space in order to adequate perform the upcoming measures and call under IPARD III. Bearing in mind activities of the IA planned for 2025 and successful implantation of the ISO 27001 standards, current working space for IA employees it is not adequate solution. This can have a serious impact on daily work process. This weakness will cause delay in conducting activities in the entire IA.

AA already raised the issue related to the Decision on the appointment of officials responsible for carrying out the functions in relation to indirect management of pre-accession funds of the EU with a finding which is presented in Final report on Audit of functioning of Management and Control system for the IPARD III Programme for Montenegro 2021-2027, dated on 19.02.2025 (Annex 6 to this report).

As regards premises, considering the capacity of current premises, the number of employees as well as the IA's future development plan, AA is consistent with the given reservation.

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

- Overview on the major IPA changes
- Overview of the audits
- Overview of the results of KRI measurement
- Overview of the results of KPI measurement
- Overview of Irregularity Reports in 2024
- Overview of risks treated in 2024
- Staff overview table
- Register of Changes
- Registers of exceptions
- Quarterly reporting n+4

By verifying AMD and supporting documents for IPARD II and IPARD III programme, issued by NAO on 14<sup>th</sup> February 2025, the AA issued the following finding:

### **1. Deficiencies in the issued AMD for IPARD II and IPARD III programme**

(FWA) ICFR 1 Control environment

(b) Supervision by management of tasks delegated to subordinates - ensuring that accountability is supported by proactive and continued supervision

(FWA) ICFR 5 Monitoring of internal control framework

(b) Assessment, recording and communication of internal control deficiencies - ensuring that responsible management and senior management, as appropriate, assess the results of on-going and specific monitoring

(FFPA) I Control environment –

2.3. Each senior manager provides a Declaration of Assurance on the appropriate allocation of resources and their use for their intended purpose and in accordance with the principles of sound financial management, as well as on the adequacy of the control procedures in place.

***Level of priority: Intermediate***

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

Pursuant to Article 9(4) of Commission Implementing Regulation (EU) No 447/2014, Annex C from the FwA, as well as Annex C from the FFPA 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.

By verifying AMD and supporting documents for IPARD II and IPARD III programme, issued by NAO on 15th February 2025, the AA identified following:

- Declaration for IPARD II is subject of reservation regarding Control environment – Namely, due to reorganization on the level of the Government of Montenegro occurred on July 23rd 2024, new ministries were established covering areas of environment and climate changes as well as employment and social policy and this has an impact on the previously established MCS.

On the other hand, in Declaration for IPARD III, in addition to the reservation for IPARD II, a reservation for IA premises is also given by the NAO. NAO should inform the Commission of the reasons and the potential consequences along with the actions taken or being planned to remedy the situation and to protect the interests of the European Union. In both AMDs for it is stated that an Action Plan has been prepared and submitted as an annex to the declarations. However, the AA notes that one Action Plan has been submitted for both programmes, which contains information only for the reservation for IPARD III related to IA premises.

- Few years in a row, in Chapter I-2 Institutional set-up and regulatory framework in the part Organizational chart is stated that Operating Structure consists of, among others, NIPAC Office, while according to the Annex 1 of the Sectoral Agreement main functions of the internal control system – Operating structure is Ipad Agency and Managing Authority, i.e. Nipac office is not relevant for IPARD Programme. The same situation is for IPARD III programme.
- In the AMD for IPARD II there is technical error in line seven, where instead of 2024 year it says 2022. However, from line four and all other documents we can confirm that AMD refers to 2024.

**Recommendation:**

The audit work carried out does not put in doubt the assertions made in the management declaration, however, AA recommends preparation of AMD with due diligence. Additionally, even though in the AMDs, the corrective actions, deadline and responsible authorities for given reservations are mentioned, since an Action Plan on NAO reservation has already been prepared, it should contain all reservation issued.

**AA follow up status: Open**

In general, 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 and article 61 (2) d) and Annex C of the FFPA for IPA III
- 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 2024 and additional supporting annexes;
- The audit work carried out does not put in doubt the assertions made in the management declaration.



**\*Information on the follow up of audit recommendations from audit of accounts from previous years**

AAAR	Finding	Follow-up January 2025
<b>Findings and recommendations identified during audit of accounts from final reports issued on 08<sup>th</sup> March 2024 – No. 3011-3-06-173</b>		
<p>1.</p> <p>Refer to Audit of accounts Final report (08/03/2024)</p> <p>4.1.1</p>	<p><b>Deficiencies in compiling Debtors ledger</b>  <b>Level of priority: Intermediate</b>  <b>Body/-ies concerned by the finding: NAO/NF / IPARD Agency</b>  <i>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.</i></p> <p>According to the Sectoral Agreement, Article 45 Content of the Annual accounts:  The annual accounts, composed of the annual financial reports and statement referred to in Article 59(2)(a) of the FWA shall include:</p> <p>(a) the revenues and the expenditure of the IPARD II programme, showing Union, national and total revenues and expenditure summarised by measures and presented on an annual basis and submitted using Form D 2 as set out in Annex 6 to this Agreement;</p> <p>(b) a table of differences by IPARD II programme and measure, between the expenditure and the revenues declared in the annual accounts and that declared for the same period in the documents referred to in Article 37 of this Agreement, accompanied by an explanation for every difference;</p> <p>(c) the table of the amounts to be recovered at the end of the financial year (debtors ledger);</p> <p>(d) a list of all payments made in the financial year in line with Annex 9 to this Agreement.</p> <p>According to Guideline No 5 IPARD II Annual Accounts, the debtors' ledger should contain the columns provided in the Annex 1 to this Guideline. For each amount a clear separation between EU and national part should be visible. Therefore, from the debtor's ledger one should be able to see the full cycle of the debt, from the time the irregularity was first noted until the time the debt has been recovered or written-off. In addition, the debtors' ledger should not only provide information on individual debts but also provide summary information on the amount of total, national and EU parts of the principal amounts and amount of interest calculated to be recovered from the debtor. In general, these sums should be corresponding to the amounts declared in the Annual declaration, but in case of any differences an explanation should be provided to the Commission together with the debtors' ledger.</p> <p>During audit of accounts for FY 2023, the AA auditors identified certain deficiencies regarding compiling the Debtors ledger. Namely, Debtors ledger which was sent to the EC on 15th February 2024, as part of Annual account package, does not include all debts incurred in FY 2023. Debt regarding recipient with ID No. 20-02-1-0065 (Contract ref. 09-908/20-10473/28), which has been recovered and already deducted from D1 for Q4 FY 2023 is not included in the submitted Debtors ledger, although it is presented in the Debtors ledger accompanying the fourth quarterly declaration (D1) for FY 2023. Debt was recovered in total amount of 122.631,86 EUR (91.973,89 EUR EU part and 30.657,97 EUR national part) and thus, this deficiency has no financial impact on correctness of the annual accounts. However, Table of differences which was also</p>	<p><b>Closed</b></p> <p>During audit of accounts for FY 2024, AA did not identify issues presented in this finding. Therefore, AA considers this finding as closed.</p>

	<p>submitted in addition to annual declaration, shows recovery of funds regarding this debt, while from submitted Debtors ledger for FY 2023, it is not possible to see the full cycle of the debt, from the registration until the time the debt has been recovered, since the debt has not been presented at all. Consequently, documents submitted to the EC are not aligned and no additional explanation of the difference has been provided.</p> <p>Furthermore, the AA auditors noticed that columns regarding total amounts of Opening balance (1/1/2023) and Closing balance (31/12/2023) in Debtors ledger are calculated incorrectly since they do not present the sum of principal and interest amount. Namely, for recipient with application ID No. 18-01-1-0228 (Contract ref. 321-1349/18-10), whose debt was written off, the principal is 0,00 EUR, while interest remained 7.532,66 EUR. Consequently, in the above-mentioned columns, total sum of the principal and interest should be 7.532,66 EUR, instead of presented amount (0,00 EUR).</p> <p>AA would like to highlight that taking into consideration that Annual declaration (D2) contains only principal amount of debts, there is no financial impact on correctness of the annual accounts, however, AA considers that each document should present information which are prescribed by form of document itself.</p> <p>Content of Annual accounts should be harmonized. Therefore, AA recommends preparing annual financial reports and statements with due diligence, following relevant templates and guidelines issued by EC.</p> <p>Auditor's final conclusion: The implementation of the recommendation will be further monitored.</p>	
<b>Findings and recommendations identified during audit of accounts from final report issued on 9<sup>th</sup> March 2023 – No. 3011-3-06-183/2</b>		
<p>1. Refer to Audit of Accounts Final report (9/3/2023)  4.1.1</p>	<p><b>Inadequate classification and treatment of overpayment</b> <b>Level of priority: Major</b> <b>Body/-ies concerned by the finding: IPARD Agency</b> ICF requirement 3. (a)(ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles. According to the DG AGRI's Annex 2 to Guideline 2 - Error evaluation, point 3.2.3, a distinction needs to be made for overpayments, on the basis of whether the error is due to a non-compliance by the recipient or solely to a wrong action by the IPARD Agency. Administrative errors: undue payments not resulting from irregularities committed by the recipients but from an error made by the national administration (normally, the IPARD Agency). Irregularities (also referred to as amounts to be recovered or debts): undue payments resulting from non-compliances committed by the recipients. During verification of completeness, accuracy and veracity of the annual financial reports and statements for financial year 2022, the AA identified inadequate classification and treatment of overpayment regarding recipient with ID No. ID No. 18-01-3-0004 (Contract reference 321-2098/18-39). Namely, the overpayment in amount of 631.77 (EU part) was identified during the audit of operation for the first two quarters of the FY 2021, when the AA auditors determined certain deficiencies regarding implementation of the investment. Considering that non-compliance was committed by the recipient, this</p>	<p><b>Closed</b> As a result of audit work for FY 2024, AA considers this finding as closed.</p>

overpayment presents an irregularity, not an administrative error as it was treated by IA and consequently this overpayment was not included into debtor's ledger for FY 2022.

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

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

Auditor's final conclusion:

According to the DG AGRI's Annex 2 to Guideline 2 - Error evaluation, administrative errors are undue payments not resulting from irregularities committed by the recipients but from an error made by the national administration (normally, the IPARD Agency).

As deficiencies within this investment, which were identified by the AA, refer to non-compliance of the investment with the main project and submitted invoice, the error cannot be identified as administrative, despite the fact that the IA made certain omissions during on the spot verification of the investment. Recipient's obligation is to implement the investment in accordance with the main project and on the spot control omissions cannot affect the classification of errors as administrative.

The implementation of the recommendation will be further monitored.

**AA conclusion January 2024:**

Partially closed

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

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

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

	<p>Considering that there are only these four isolated cases presented as administrative errors instead of irregularities/debts and since the related amounts were recovered and credited to the IPARD Euro account, the AA considers that this issue cannot be classified as systemic. Even though IA acted correctly after our communication, AA considers this finding partially closed and the implementation of recommendation will be further monitored.</p>	
<b>Findings and recommendations identified during audit of accounts from final report issued on 4<sup>th</sup> March 2021 – No. 3011-3-06-123</b>		
<p>1.</p> <p>Refer to Audit of accounts Final report (04/03/2021)</p> <p><b>4.1.1</b></p>	<p><b>Shortcomings in compiling the Balance Sheet</b></p> <p><b>Body/-ies concerned: NAO/NF</b> <b>Level of priority: Intermediate</b></p> <p>ICF requirement 3. (a)(ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles; (a)(x) Reconciliation procedures ensuring that wherever required accounting balances are reconciled against third-party information.</p> <p>Bearing in mind the above-mentioned requirements and generally accepted accounting practice, certain deficiencies were identified during the audit of Annual Accounts regarding the Balance Sheet: <b>1) Amounts presented in the following accounts have been miscalculated:</b></p> <ul style="list-style-type: none"> <li>- 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);</li> <li>- 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€;</li> <li>- 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</li> </ul>	<p><b>Open</b></p> <p>Not implemented yet. Taking into consideration the closure of the IPARD II programme, implementation of this recommendation will be monitored and reported within AAAR for IPARD III.</p>

	<p>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.</p> <p>2) Amounts presented regarding liabilities have negative value – During review of financial statements, it was noted that all amounts in the Balance Sheet related to the liabilities which include liabilities to IB/IA from EU contribution, liabilities for amounts due to the EC – recoveries and long-term liabilities have negative value instead of positive;</p> <p><b>3) There is not separated account for recording liabilities due to interest on debts</b> – during review Manual of procedures and Balance Sheet, it was noted that account 281-1 (liabilities to the EC-recoveries) is used for recording liabilities to the EC for recoveries from IA and there is no account predicted for recording liabilities related to interest on debts. Given the fact that there is account for recording receivables for interest on debts, there should be added appropriate account for recording liabilities for interest on debts due to clearer insight in liabilities regarding debts.</p> <p>The AA recommends preparing annual accounts with due diligence, following guidelines issued by EC, international accounting standards and generally accepted practice. In addition, DMS should include separate account for example account 281-7 for recording liabilities for interest on debts as well as to merge accounts 291-1 and 291-3 considering good practice and consequently adopting the Manual of procedures.</p> <p>Auditor's final conclusion:</p> <p>After AA's analysis of auditees' response, AA emphasizes that recommendation related to the account 115-7 doesn't relate to the D2 form or reporting requirements toward EC. Recommendation relates to the accounting system and preparation of balance sheet which currently doesn't provide accurate information and is not aligned with the information provided in the balance sheet by IPARD Agency (EU part). Interest should be recorded for internal purpose (based on accrual accounting principles) and accurate information about receivables for interest on debts which are calculated and not paid.</p> <p>When it comes to the negative values, according to international accounting standards and practice all amounts with minus relate to the negative values and AA strongly recommend removing minus for positive values on passive accounts in order to have precise and accurate information about passive accounts. In addition, there is a question how the NF will present passive accounts in the situation when they need to be negative.</p> <p>The implementation of the recommendation will be further monitored.</p> <p><b>AA reply January 2024:</b> Remains open Considering that there was no improvement regarding this finding, AA conclusion from previous year still remains. The implementation of the recommendation will be further monitored.</p>	
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**\*Other information not presented in other sections of the AAAR but relevant to the audit opinion:**

**Status of irregularities for IPARD II<sup>33</sup>**

During FY 2024 IPARD Agency has processed and reported 12 cases of irregularities to AFCOS office/ Irregularity Management system (hereinafter: IMS), 3 from AA findings out of 5 irregularities identified by AA, 8 cases initiated by IA and 1 case initiated by both – IA and AA. All new cases have financial impact.

At the moment, in the IMS, 19 cases are open. Details from the IMS with relevant dates are presented in table below:

Application ID number	Detecting date of suspicion of irregularity	Institution which detected suspicion of irregularity	Date of Report for suspected /detected irregularity	Amount to be recovered		Date of decision on recovery of funds/return receipt	Date of recovery of funds
				EU part	National part		
18-01-1-0228	4 <sup>th</sup> March 2020	Audit Authority	17 <sup>th</sup> September 2020	48.900€	16.300€	30 <sup>th</sup> September 2020 / 12 <sup>th</sup> October 2020	Not recovered yet (written-off – 30 <sup>th</sup> September 2022)
18-01-3-0303	25 <sup>th</sup> December 2020	Audit Authority	12 <sup>th</sup> January 2022	21.250,12€	7.083,38€	10 <sup>th</sup> December 2021 / 24 <sup>th</sup> January 2022	D1 for Q1 FY 2022 (deduction from new payment request)
18-01-1-0274	4 <sup>th</sup> March 2021	IPARD Agency	13 <sup>th</sup> September 2021	/	/	/	/
18-01-1-0242	15 <sup>th</sup> April 2021	IPARD Agency	12 <sup>th</sup> January 2022	/	/	/	/
18-01-1-0134	16 <sup>th</sup> September 2021	IPARD Agency	28 <sup>th</sup> March 2022	/	/	/	/

<sup>33</sup> No irregularities for IPARD III

18-01-1-0201	10 <sup>th</sup> November 2021	IPARD Agency	28 <sup>th</sup> March 2022	/	/	/	/
<b>20-02-1-0065</b>	7 <sup>th</sup> August 2023	IPARD Agency	31 <sup>st</sup> December 2023	91.973,89€	30.657,97€	24 <sup>th</sup> October 2023	26 <sup>th</sup> October 2023 / 15 <sup>th</sup> November 2023
20-02-1-0107	22 <sup>nd</sup> August 2023	IPARD Agency	23 <sup>rd</sup> August 2023	99.394,24	33.131,42	/	/
<b>21-03-3-0024</b>	27 <sup>th</sup> December 2022	IPARD Agency	16 <sup>th</sup> May 2024	3.072,00€	1.024,00 €	16 <sup>th</sup> September 2024	Not recovered yet
<b>21-03-1-0009</b>	24 <sup>th</sup> January 2024	Audit Authority	13 <sup>th</sup> February 2024	1.176,42€	392,14€	13 <sup>th</sup> February 2024	13 <sup>th</sup> March 2024
<b>22-04-3-0003</b>	24 <sup>th</sup> January 2024	Audit Authority	6 <sup>th</sup> March 2024	2,743.80 €	914.60 €	11 <sup>th</sup> April 2024	Not recovered yet
<b>18-01-1-0005</b>	18 <sup>th</sup> March 2023	IPARD Agency	8 <sup>th</sup> March 2024	1.379,81€	459,94€	3 <sup>rd</sup> June	Not recovered yet
<b>21-03-3-0001</b>	12 <sup>th</sup> April 2023	IPARD Agency	8 <sup>th</sup> April 2024	32.067,15€	10.689,05€	3 <sup>rd</sup> June 2024	Not recovered yet
<b>18-01-1-0297</b>	11 <sup>th</sup> July 2023	IPARD Agency	8 <sup>th</sup> April 2024	300,00€	100,00€	14 <sup>th</sup> August 2024	21 <sup>st</sup> September 2024
<b>18-01-1-0295</b>	8 <sup>th</sup> November 2022	IPARD Agency	16 <sup>th</sup> July 2024	8.996,53€	2.998,84€	19 <sup>th</sup> July	19 <sup>th</sup> August 2024
21-03-3-0028	20 <sup>th</sup> November 2023	IPARD Agency	19 <sup>th</sup> July 2024	10,678.52 €	3,559.51 €	8 <sup>th</sup> August	Not recovered yet
<b>22-04-1-0021</b>	2 <sup>nd</sup> August 2023	IPARD Agency/Audit Authority	11 <sup>th</sup> November 2024	<u>12.398,17 €</u>	<u>4.132,72€</u>	Not issued Decision on recovery	
<b>18-01-1-0318</b>	22 <sup>nd</sup> February 2024	IPARD Agency	11 <sup>th</sup> November 2024	613,55 €	204,52 €	23 <sup>rd</sup> October 2024	Not recovered yet

<b>21-03-3-0006</b>	1 <sup>st</sup> November 2024	Audit Authority	20 <sup>th</sup> January 2025	219,00 €	73,00 €	14 <sup>th</sup> January 2025	24 <sup>th</sup> February 2025
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Further in the text, explanations are given on cases with financial impact.

- As regards case of the recipient with ID No 18-01-1-0228 (Contract No. 321-1349/18-10), the IA has updated Report through the IMS system where initiated proceedings were described in order to collect the outstanding debts. Therefore, the IA sent to the Protector of Property and Legal Interests of Montenegro request on 13<sup>th</sup> January 2021, to ask for the following steps since the recipient has not returned the fund in the legal deadline of 28<sup>th</sup> October 2020 – 15 days from the day of receiving the Decision on the recovery of funds. Thus, since this day IA has started to calculate the interest in accordance with relevant regulations. Also, through IMS system the IA has reported that the recipient filed a lawsuit against the Decision on recovery of funds, received in the Ministry on 31<sup>st</sup> December 2020. The judicial proceedings are still ongoing. However, bearing in mind that the recipient was entered into Debtor's ledger on 30<sup>th</sup> September 2020 and that he still has not recovered the funds, in accordance with Article 47(6) of SA, the debt was written off, which was presented through form D1 for 3<sup>rd</sup> quarter of FY 2022 and deducted from the payment by EC for that quarter. Furthermore, in accordance with Guideline 5 the *EU amount of calculated, and not repaid, interest should remain noted in the debtors' ledger and should be returned to the Commission in case that interest has been later recovered from the debtor*. Therefore, given the fact that recipient still has not recovered the funds and that judicial proceedings are still ongoing, this case is still open in the IMS, the IA regularly calculated interest and at the end of FY 2024 interest amounted 7.532,66 EUR (EU part), as it was presented in the debtor's ledger.
- As regards case of the recipient with ID No 18-01-1-0303 (Contract No. 321-1325/18-25), on the 24<sup>th</sup> January 2022 the recipient received Decision for recovery of funds. Deadline for recovery of funds was 24<sup>th</sup> February 2022. In the meantime, the recipient has submitted a payment request for measure 3, which had been processed. The recipient has submitted the lawsuit and the IA has submitted the response and forwarded the case files to the Administrative Court accordingly. However, as the recipient has not returned the funds, the debt from this project (28.333,5 €) has been deducted from the approved funds for payment request through measure 3, according to Article 41 (3) of SA. In December 2022 the IA has received the answer from the Administrative court in which the Court declares that it has no real jurisdiction and that it is necessary to refer the case to the actual and locally competent Basic Courts for further decision-making and the procedure is ongoing. Therefore, even though the amount has been recovered, the case is still open in IMS and monitored.

Also, the AA reported an error with regard to the assessment of the reasonableness of costs for the construction of a photovoltaic system. A weakness in the Evaluation committee's assessment of offers was identified by the AA. The IPARD Agency did not agree with the finding identified by the AA. The amount of EU contribution affected by this error in the substantive testing is EUR 2

102.24. By DG AGRI Letter PRE/2021/001/ME/FIL – Ares (2024) 4170287 – 10/6/2024 DG AGRI maintains its position, indicating deficiencies related to the assessment of the reasonableness of costs, the composition of the Evaluation committee and the technical experience of its members. DG AGRI agrees with the opinion of the AA that the IPARD Agency's practice for evaluation of the offers was not compliant with the relevant procurement procedures. Therefore, the amount of EUR 2 102.24 represents a risk to the Fund and is maintained in the error calculation.

Therefore, AA's recommendation remains the same - The IPARD Agency should initiate recovery of funds related to construction of photovoltaic system in amount of 2.802,98€ which presents total public contribution out of which 2.102,24€ is EU part and 700,74€ national part. IPARD Agency should add this recipient in the Irregularity Register and IMS and initiate procedure for the recovery of funds.

- As regards case of the recipient with ID No 18-01-1-0307 date of the first information leading to suspicion of irregularity according to the Irregularity register was 4/8/2023 and date of issuing Conclusion on established irregularity 12/9/2023. However, recipient has not been entered into the IMS, no decision for recovery of funds was issued and have not been recorded in the debtor's ledger, as they should have been.
- Inconsistency in the relevant documents and on the spot under application ID No. 22-04-1-0076 (Contract ref. No. 09-908/22-6766/19) is finding issued by AA during FY 2023. By insight into the Irregularity Management system, AA noted that this case has not been reported as irregularity. AA considers that cases like this should be reported as irregularities, in order to pay more attention in the event that the same supplier and/or recipient subject to this finding appears. Therefore, finding remains open. AA will monitor implementation of this recommendation and report accordingly within the AAAR for IPARD III.
- As regards recipient with ID No. 21-03-1-0009 (Contract ref. 09-908/21-15025/26) in total amount of 1.461,15 EUR (EU part 1.095,86 EUR and national part 365,29 EUR), decision on recovery of funds was issued on 13th February 2024 and funds were recovered by recipient on 13th March in total amount.
- As regards recipient with ID No. 22-04-3-003, Contract reference 09-908/22-3210/29 in total amount of 3.658,40 EUR (EU part 2.743,80 EUR and national part 914,60 EUR), decision on recovery of funds was issued on 8th April 2024. Recipient initiated a lawsuit in the front of the Administrative Court, and proceedings are still ongoing.

Regarding AA findings from FY 2024, in the IMS are presented 2 cases. Detailed information on findings is presented in Section 5.8.1. to this Report.

Beside cases initiated by AA, cases initiated by IA are presented in the table above.

**\*Follow-up on Action Plan on NAO reservations from Annual Management Declaration process for the year 2020 and 2022**

**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
<p><b>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</b></p>	<p>At the first session of the newly elected Government of Montenegro on December 7<sup>th</sup> 2020, new Decree on the organization and manner of work of the state administration was adopted. The mentioned Decree has significantly changed the organization of the entire state administration, and thus the Operating Structures that are included in the model of indirect management of EU pre-accession assistance (IPA II). Bearing in mind that Montenegro is obliged to respect the provisions set in the Framework Agreement signed with the European Commission in terms of providing an efficient and effective system for the implementation of pre-accession support programmes (IPA II), it is now necessary to adjust the Operating structure included in the model of indirect management of EU pre-accession assistance (IPA II) to the</p>	<p>Preparation and adoption of the new Decision on the appointment of key IPA officials.</p>	<p><b>Closed</b></p> <p>As a result of system audit for IPARD III, AA issued a finding related to non-adoption of a new Decision on the appointment of key IPA officials. Therefore, AA considers this part as closed for IPARD II. AA will monitor implementation during audit work for IPARD III.</p>

	<p>newly adopted Decree on the organization and manner of work of the state administration. With the reorganization of certain ministries and public administration bodies, it should be emphasized that there is a need to determine the segregation of duties and responsibilities of previous IPA units to the newly established state administration.</p> <p>Taking into consideration the governmental changes, each of the newly formed ministries is obliged to adopt the relevant Rulebook on Internal Organization and Systematization. It is necessary to identify relevant organizational units and adequate staff capacities that will be in charge of performing IPA tasks through the implementation of IPA II programmes. After the completion of this process, it is necessary to propose a new Decision on appointment of persons in indirect management of EU pre-accession funds in this regard. The Ministry of Finance and Social Welfare/National Authorising Officer will continue with the practice of issuing a formal opinion on the Rulebook on Internal Organization and Systematization of State Administration Bodies, in order to</p>		
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	ensure that tasks and responsibilities are recognized by modalities proposed.		
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**Follow-up on Action Plan on NAO reservations from Annual Management Declaration process for the year 2022 for DG AGRI review and acceptance for the Programme for the development of agriculture and rural development in Montenegro under IPARD II 2014-2020**

Reservation issued/ Referent Programme	Description of the weakness determined	Mitigation measures determined	Status of fulfillment of action AA Follow up
<p><b>IPARD Agency IPARD II Information and communication</b> - Weaknesses identified in IPARD Agency in the Ministry of Agriculture, Forestry and Water Management related to the bottlenecks on timely and adequate communication</p>	<p>There were present evident failures in regards to preparation of the referent IPA documentation and monitoring and reporting on the action plans dynamics related to the specific IPARD framework and disbursement of funds measures in 2022. Communication was jeopardized also according to the lack of staff and establishment of the precise reporting lines within and outside IA in 2022. Corrective measures have been initiated and ongoing concerning staff engagement and strengthening of the disbursement capacities. Processes and communication channels with the entities outside the organisation are not always timely and adequately implemented. Relevant information from external parties does not always reach the relevant levels of the organisation, including the senior management. Lack of long-term functional solution at the position of the Head if Implementing Agency additionally</p>	<p>Appointment of the Head of IPARD Agency on long term basis</p>	<p><b>Closed</b></p> <p>Head of IA was appointed on 14<sup>th</sup> September 2023.</p>
	<p>Lack of long-term functional solution at the position of the Head if Implementing Agency additionally</p>	<p>Adoption of the new Rulebook on the Internal Organisation</p> <p>Incorporating changes within MAFW Internal Rulebook related to the communication and reporting tasks within specific division</p>	<p><b>Closed</b></p> <p>The identified deficiency and accompanying action plan are related to the period of the frequent changes in the position of head of IA. According to information received, the IA considers that it is not necessary to undertake any changes in systematization or procedures, because as already explained, shortcomings and problems neither in communication nor in reporting were not detected in the previous period. During audit</p>

	<p>provoked incoherent influence on internal control mechanisms and absorption of the available IPARD II funds.</p> <p>Within the implementation of activities and projects implemented through the system of indirect management of pre-accession assistance of funds, and in accordance with the responsibilities of the Management Structure, monitoring of Internal Control Framework activities is crucial, as well as respecting the deadlines for implementation as well as continuous monitoring of the obligations of all competent IPA institutions. Referent activities have been pointed out also through the findings issued during Management Structure verifications performed and concrete performance of the system level OTSCs.</p>		<p>work for FY 2024, AA noted that reporting has been carried out regularly and timely, within the IA as well as communication with external bodies. Therefore, AA considers this finding as closed.</p>
		<p>Changes of procedures in respect to communication and reporting concerning internal and external communication channels</p>	<p><b>Closed</b></p> <p>AA unequivocally determined while conducting the subject audits, that there are no issues in communication. On the contrary, all sectors are prompt and cooperative, so this finding can be considered as closed.</p>

\* Follow up of the Action plan on the DG AGRI letter of closure with conditions and recommendations concerning the REBIT M7

Situation as of the letter of observations and recommendations Annex of Ares (2020)2004695 dated 09/04/2020	Recommendation	Responsible body	Corrective measures/Deadline	AA follow up
<p>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.</p> <p>Following the latest staff and contracts overview table provided on 12/12/2019, the Montenegrin authorities do not plan to fill-in any of the vacant posts of the IPARD Agency in 2020.</p> <p>In addition, there is a serious staff shortage in the Managing Authority, where the occupation rate is only 53% (only 9 out of 17 posts are filled in). No recruitments are planned in 2020.</p>	<p>The vacant posts in the IPARD Agency, based on the latest update of 12 December 2019, should be filled in to ensure sufficient human resources are available in the departments for authorisation of payments, the department for the on-the-spot controls and the department for execution of payments of the IPARD Agency. In addition, replacement staff with the necessary skills for employees on long-term leave in the department for publicity and authorisation of projects and the department for authorisation of payments should also be put in place.</p> <p>The Managing Authority should present realistic planning for recruiting staff to fill in the vacant posts.</p>	<p>IPARD Agency Managing Authority</p>	<p>In order to efficiently perform the accredited and/or entrusted tasks of indirect management within the IPARD Programme, IPARD Agency has undertaken significant corrective measures through engagement additional employees since 12 December 2019. Further employment has been implemented in February of 2020, by employment of additional 9 persons in accordance with the need and results of the WLA.</p> <p>It is important to stress that IA employed sufficient number of staff on tasks related to authorization of projects and execution of payments, which can assure smooth implementation of delegated tasks and responsibilities.</p> <p>Additionally, Managing authority engaged 1 employee in February 2020.</p>	<p>During the system audit for IPARD III, AA issued recommendations concerning staffing situation in IA and MA which is presented in Annex 6 to this Report</p>

Situation as of the letter of observations and recommendations Annex of Ares (2020)2004695 dated 09/04/2020	Recommendation	Responsible body	Corrective measures/Deadline	AA follow up
			Recruitment Plans shall be updated in order to achieve adequate staff capacity within MA.	
<p><b>1. <u>Information systems security</u></b></p>	<p>The IPARD Agency should ensure that the ISO 27002:2013 information systems security requirements are taken into account as referred to in the specific complementary provisions.</p> <p>The planned future IT developments should all take into account the relevant ISO 27002:2103 security requirements.</p>	IPARD Agency	<p>The Action Plan ISO 27002 is currently in the phase of the final harmonization by Ministry of Public Administration.</p> <p>When it comes to IPARD Agency, specific audit on Security policy is under implementation with the aim of establishment secure core framework for the specific measures requested by DG AGRI. IA is already implementing under high level standards in respect to data and information management and is in poses of IT equipment which maintain system on fully operational level.</p>	<p>As regards Information system security, in order not to duplicate the findings and replies, in answer to this part, the Agency considers it more appropriate to refer to the follow-up of the implementation of the action plan for ISO 27002 which is attached as annex 7 to this AAAR</p>



Status of AA findings from previous years as well as those issued for FY 2024 is presented in the table below:

Findings	Closed	Open - to be monitored under IPARD III	Total number of findings
AA findings	21	10	31

As regards follow up of AA findings from previous years and for FY 2024, out of 31 recommendations, 21 are implemented. Due to the same ICF for both programmes, AA considers that 10 findings shall remain open and shall will be monitored under IPARD III.

**Quantification of the financial impact of all open findings of AA is presented in the table below:**

	Code of recipient	Financial impact (EU part)
1.	22-04-3-0003	2.743,80 €
2.	18-01-1-0303	2.102,24 €
3.	22-04-1-0021	12.398,17€
4.	21-01-7.1-0002	324,73€
5.	21-01-7.1-0013	182,21€
	<b>Total:</b>	<b>17.751,15€</b>

As regards Follow up of the Action plan on the DG AGRI letter of closure with conditions and recommendations concerning the REBIT M7 Ares(2023)2064568 dated 22/3/2023 during the system audit for IPARD III AA issued recommendations concerning staffing situation in IPARD Agency and IPARD Managing Authority which is presented in Annex 6 to this Report.

As regards Reservation issued with AMD for 2020, Decision on appointment of the key IPA officials - as a result of system audit for IPARD III, AA issued a finding related to non-adoption of a new Decision on the appointment of key IPA officials. Therefore, AA considers this part as closed for IPARD II. AA will monitor implementation during audit work for IPARD III.

As regards Reservation issued with AMD for 2022, out of three mitigation measures determined, according to AAs assessment, all are implemented.

As regards DG Agri Letter Ref. Ares (2023)5251704 from 28<sup>th</sup> July 2023, Audit Authority reply on progress of implementation of Action plan for ISO/IEC 27002. Information on status of recommendations is presented in Annex 7 to this Report.

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

## 8. OVERALL LEVEL OF ASSURANCE

### 8.1. Indication of the overall level of assurance on the proper functioning of the management and control system

Based on scope of audit performed, the AA has obtained reasonable assurance for the results presented within this Report. The overall level of assurance on the proper functioning of the management and control systems is based on the result of the system audit and the audit of samples of transactions including the results of the audit of accounts carried out for the expenditure declared to the European Commission for the FY 2024, i.e.:

- Based on system audit (audit of procedures and test of controls), the AA has obtained a reasonable assurance on the efficient and effective functioning of the management, control and supervision system (described in Chapter 4 of this Report).
- Based on the audit of sampled transactions, the AA has obtained a reasonable assurance on the legality and regularity of the expenditure declared to the Commission (described in Chapter 5 of this Report).
- By auditing the accounts, the AA has obtained a reasonable assurance that the amounts stated in the annual accounts are correct, accurate and true (described in Chapter 6 of this Report).

Considering that AA did not use statistical sampling methodology, the AA did not define expected error. Based on section 7.1.3.2 of the Guideline No 2, the total level of assurance is fixed at 95%. Confidence level obtained from compliance testing is 10% (since ICS is assessed as “Works”) and confidence level obtained from substantive testing is 85 % as presented in table below:

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

### 8.2. Assessment of any mitigating actions not linked to financial adjustments/corrections

Not applicable.

**9. OVERALL TABLE FOR DECLARED COSTS RECOGNISED, PAYMENTS MADE AND AUDITS OF OPERATIONS**

	A	B		C	D	E		F	GI	JH
Fund/ Programme	Expenditure declared to the Commission in reference to the year	Expenditure audited and its part from the expenditure declared to the Commission		Total number of units in the population	Number of sampling units for the random sample	Amount and percentage (error rate) of irregular expenditure in random sample		Total projected error rate	Other expenditure audited <sup>34</sup>	Amount of irregular expenditure in the expenditure sample (if any)
		Public (EU + national)	EU part only			Amount	%	%		
Programme for Agriculture and Rural development of	11.664.945,00€ <sup>35</sup>	3.283.498,88€	2.462.624,08€	347	70	13.124,11€	0.53	0.53	/	/

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

<sup>35</sup> This amount refers only to 347 final and interim payments.

## 10. ABBREVIATION AND ANNEXES

- **Annex 1 Evaluation of the ICS**
- **Annex 2 Substantive testing of operational transactions**
- **Annex 3 Errors non-operational**
- **Annex 4 Compliance testing of operational transactions**
- **Annex 5 List of selected and audited items for substantive testing of non-statistical**
- **Annex 6 Final Report on Audit Findings - IPARD III system audit FY2024**
- **Annex 7 Audit Authority reply on progress of implementation of Action plan of the DG AGRI letter of closure with conditions and recommendations concerning information systems security audit ISO27002 in IPARD agency and Management structure**

List of abbreviation

AA	Audit Authority
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AFCOS	Anti - fraud Coordination Service
AMD	Annual Management Declaration
AWP	Annual Work Plan
D1	Declaration of Expenditure and Revenue
D2	Annual declaration of accounts for FY
DG AGRI	Directorate-General for Agriculture and Rural Development
DIA	Division for Internal Audit
DMS	Directorate for Management Structure
DP	Directorate for Payments
EC	European Commission
EU	European Union
FA	Financing Agreement
FY	Financial Year
FWA	Framework Agreement
FFPA	Financial framework partnership agreement
FY	Financial Year

FWA	Framework Agreement
IA	IPARD Agency
IEA	IPARD Euro Account
IPA	Instrument for Pre-accession Assistance
ICFR	Internal Control Framework Requirement
IPARD Programme	Programme for the Development of Agriculture and Rural Areas in Montenegro
ISA	International Standards on Auditing
KPIs	Key Performance Indicators
MA	Managing Authority
MAFWM	Ministry of Agriculture, Forestry and Water Management
MCS	Management Control System
MF	Ministry of Finance
MOP	Manual of Procedures
NAO	National Authorising Officer
NAOSO	The NAO Support Office
NFD	National Fund Division
NIPAC	National IPA coordinator
OG	Official Gazette of Montenegro
OTSC	On the spot control
RPD	Reference price Database
SA	Sectorial Agreement
SSOs	System Supervision Officers
WLA	Work Load Analysis