



MONTENEGRO
AUDIT AUTHORITY

No: 01-908/26-175/1

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

FOR THE PERIOD FROM 01 JANUARY UNTIL
31 DECEMBER 2025

Podgorica, March 16th, 2026

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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 16th, 2022. Auditor General has a Deputy, Ms Dubravka Mihailovic, who was appointed on 6th November 2025 by the Government of Montenegro.

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 pre-accession assistance (IPA III) (hereinafter: FFPA), as well as relevant European Commission (hereinafter: EC) Guidelines. List of AA team members that were involved in the preparation of the AAAR is presented in the following table:

Body	Name	Position	Experience in audit		Type of appointment : permanent (P) or temporary (T)	Chartered accountant / certified auditor	Part of the AAAR
			General	IPARD			
AA	Rina Mucaj Demirovic	Authorized Auditor / Head of Department for audit of the program of agricultural and rural development	13 years and 9 months	12 years and 9 months	P	Certified auditor/ State auditor	All listed members were involved in the preparation of this Report
	Marko Tomčić	Authorized Auditor	7 years and 11 months	7 years and 11 months	P	Certified auditor/ State auditor	
	Maja Klikovac	Authorized Auditor	5 years and 5 months	5 years and 5 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(i) of the FFPA for IPARD III, reference period for this AAAR is financial year and covers the period from **1st January to 31st December 2025**.

The audit activities performed in the audit period for the financial year were governed by the **Audit Strategy 2025-2027 for IPARD III**. The audit scope for IPARD III programme consisted of:

- System Audit (test of procedures and 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 III expenditure (divided into the EU and the national part) declared to the European Commission for the reference period FY 2025 (in accordance with the Annual Declaration (Form D2)) is presented in the table below:

Quarter in 2025	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	0	0	0	0,00	0,00	0,00	0,00	0,00	0,00
Q2	0	0	3	0,00	0,00	0,00	0,00	80.532,98	26.844,34
Q3	0	1	7	0,00	0,00	733.785,00	244.595,00	844.438,01	281.479,34
Q4	10	7	8	1.259.857,08	419.952,38	1.339.718,29	446.572,78	970.777,32	323.592,45
Total	10	8	18	1.259.857,08	419.952,38	2.073.503,29	691.167,78	1.895.748,31	631.916,13

As it is presented in the table above, in the D1s for the FY 2025 there were 36 executed and declared payments to the EC, i.e.10 final, 8 interim and 18 advance payments under the contracts financed from IPARD III programme.

Additionally, considering the end of implementation of the IPARD II programme, within this report, AA provides information on irregularities, debts and ex-post controls for IPARD II.

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, Programme for the Development of Agriculture and Rural Areas in Montenegro for period 2021-2027.

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, 22/07/2024 and 20/11/2025. 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, 8 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.

Additionally, based on the DG AGRI letter Ref. Ares (2025)6624664 from 14/08/2025 regarding Measure 9 Technical assistance, DG AGRI considers that the structures and procedures established for IPARD III fulfil the minimum conditions referred to in Article 13(3) of the Financial Framework Partnership Agreement, as complemented by the Sectoral Agreement (SA) III, which entered into force on 13 December 2022. Consequently, the entrustment of budget implementation tasks for Measure 9 under IPARD III can be granted through the conclusion of a Financing Agreement in accordance with the provisions of Article 5(3) of Commission Implementing Regulation (EU) 2021/2236 and Article 157(4) of Regulation (EU, Euratom) 2024/2509, provided that all other formalities required for the conclusion of such an Agreement are fulfilled.

Structures and bodies being part of the Management and control supervision system are as follows:

- The National IPA Coordinator (hereinafter: NIPAC) – **Ms. Maida Gorčević**, the minister of European Affairs appointed on 6th 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 8th 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 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 11th July 2024. The Management structure consists of two separate divisions:
 - Accounting body- Division for financial-accounting affairs and Growth Plan coordination – **Ms Žana Jovanović** - Head of Division from April 1st 2019. Division is in charge of tasks of financial management of IPA assistance, under the responsibility of the NAO.
 - NAO support office Division for Control Framework Management and Accreditation of EU Support Programmes – managed by **Ms Ivana Cupic** – Head of NAOSO from 19th 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 2nd February 2022 by the Government of Montenegro. The MA is responsible for preparation, monitoring of implementation of IPA rural development programmes and evaluation.
- IPARD Agency – Agency for payments in agriculture, rural development and fishery, managed by Mr Marko Radonjić, appointed by the Government of Montenegro as acting director of the Agency for payment on December 25th 2025. 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. 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.

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

As defined in Clause 9(6) of Annex A of the FFPA, in order to prepare the AAAR and to issue the Annual Audit opinion (hereinafter: AAO), the Audit Authority has processed, summarised and assessed the findings and recommendations included in the reports on audits performed in accordance with Audit strategy 2025-2027 and has carried out a follow-up to assess the implementation of recommendations from previous years.

The AAAR is prepared following the Annex D to the FFPA. 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 2025.

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 2025 (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 audits of management and control system, audits on legality and regularity of transactions, audits of completeness 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 an annual audit opinion for IPARD III for financial year 2025 following model provided in Annex E to the FFPA. The AA prepared an opinion 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.

As regards Information system security, AA conducted follow up of the finding that was issued in FY 2023 by the AA, 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 28th July 2023, NAO is in charge of reporting quarterly on the state of implementation from 15th October 2023 and AA should monitor the progress of implementation of recommendations and report to the EC within the AAAR. Follow up on DG AGRI letter and Information system recommendations was performed by the AA in January/February 2026.

The AA compared the IA's and Management structure's improvement since January 2025. The AA considers that improvement has been made since majority of recommendations from the Action plan were acted upon in IPARD agency (26/28).

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]. AA assessed that improvements have been made in the implementation of the recommendations; however, there are delays in the implementation of Action Plan for the Implementation of Information Security in accordance with the ISO 27002 standard within the IPA framework for the period 2025–2027.

AA's 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 is presented as Annex 6 to this Report.

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

The following changes occurred since the last Annual Audit Activity Report was submitted to EC:

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	
IPARD MA	Manual of Procedures version 1.1.	non—substantial	L	19/03/2025	/	17/03/2025
All IPARD Institutions	Decision on the appointment of persons responsible for the implementation of indirect management of pre-accession funds (IPA) and the protection of the financial interests of the EU has been adopted on the Government	substantial	L	1/8/2025	/	12/08/2025
IPARD MA	Manual of Procedures version 1.2.	non—substantial	L	2/10/2025	2/10/2025	30/09/2025
Management Structure	New Rulebook on internal organisation and systematisation of the Ministry of Finance had been adopted in October 2025.	n/a	M	22/01/2026	22/01/2026	9/10/2025
All IPARD Institutions	Amendment of the Programme for the development of agriculture and rural areas in Montenegro under IPARD III 2021-2027, v.1.3	n/a	L	22/01/2026	22/01/2026	20/11/2025
IPARD Agency MA	Regulation on the implementation and procedure for the use of funds under Measure 9, 144/25	n/a	M	/	/	9/12/2025
IPARD Agency	Amendments of the Regulation on the Organization and Manner of Work of the State Administration, published in	Substantial	M	13/02/2026	13/02/2026	15/12/2025

	<p>the Official Gazette of Montenegro No. 148/25.</p> <p>With the amendments, Agency for Payments in Agriculture, Rural Development and Fishery is established, and took over responsibilities under the IPARD III Programme from the former Directorate for Payments within MAFWM.</p>					
All IPARD institutions	Draft law on the ratification of the agreement on amendments to the sectoral agreement between the Government of Montenegro and the European Commission (IPARD III), proposed at the Government session on December 10, 2025, and adopted by the Parliament on December 23, 2025.	n/a	L	/	/	23/12/2025
All IPARD Institutions	Amendment of the Decree on the implementation and procedure for the use of funds from the European Union Pre-Accession Assistance Instrument (IPARD III Program	n/a	L	22/01/2026	22/01/2026	25/12/2025
All IPARD Institutions	New Decree on the Implementation and Procedures for the Use of IACS Measures under the Instrument for Pre-Accession Assistance of the European Union (IPARD III Program) and Direct Payments in Agriculture	n/a	M	13/02/2026	13/02/2026	25/12/2025
IPARD Agency	New Rulebook on internal organisation and systematisation of the Agency for Payments in Agriculture, Rural Development and Fishery	n/a	H	/	/	05/03/2026 ¹

¹ Adopted by the Government. Rulebook shall enter into force 8 days after publication on the institution's notice board.

Establishment of the Agency for Agriculture, Rural Development and Fisheries

On 17th July 2025, the Government of Montenegro adopted the Law on the Implementation of Support Measures for Agricultural Policy, Rural Development Policy and Fisheries Policy. The Law enables the establishment of a legal framework for the implementation of support measures in the field of agricultural policy, rural development policy and fisheries policy, as well as a legal framework regulating the rules under which the Agency for Payments in Agriculture, Rural Development and Fisheries shall operate as a public administration authority. The Law was subsequently adopted by the Parliament and published on 1 August 2025.

On the same day – 17th July 2025 – the Government of Montenegro also adopted the Implementation Plan for the Establishment of the Agency for Payments in Agriculture, Rural Development and Fishery and the Establishment of the Integrated Administration and Control System in Montenegro. This document constitutes a roadmap for the establishment of a fully operational Agency for Payments in Agriculture, Rural Development and Fishery with an integrated administrative and control system (IACS). The reasons for adopting this plan are directly linked to European Union accession process, as all relevant systems must be fully operational on the date of accession to the EU.

On 15th December 2025, the Government of Montenegro adopted a Conclusion approving the Proposal for the Regulation on Amendments to the Regulation on the Organisation and Mode of Operation of the State Administration. By virtue of this Decree, the Agency for Payments in Agriculture, Rural Development and Fishery was established.

In accordance with the Regulation on the Organization and Method of Work of State Administration, Article 48, supervision over the legality and efficiency of administrative bodies is carried out by the ministries. By amending the aforementioned Regulation, Article 49, point 13, a new paragraph is added – the Ministry of Agriculture, Forestry, and Water Management exercises supervision over the newly established Agency.

The mandate of the Director General of the Payments Directorate, Mr. Marko Radonjić, ended on 25th of December 2025 (Official Gazette of Montenegro”, No. 162/2025, of 31 December 2025), while on the same date he was reappointed as Acting Director of the Agency for Payments in Agriculture, Rural Development and Fishery.

On the same day the Government also adopted the Decree on the Implementation and Procedures for the Use of IACS Measures under the Instrument for Pre-Accession Assistance of the European Union (IPARD III Program) and Direct Payments in Agriculture.

On 5th March 2026, the Government of Montenegro adopted the Rulebook on the Internal Organisation and Staff Structure of the Agency for Payments in Agriculture, Rural Development and Fishery. The Rulebook foresees the reorganisation of the existing departments as well as the establishment of new ones. The next steps include the reassignment of staff, preparation of new job descriptions, development of new procedures, etc.

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.**

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 2024, 5 exceptions initiated by the IA were approved by the NAO/Deputy NAO related to IPARD III programme:

1. Modification of procedures in Unit for publicity and authorization of projects ²

This exemption refers to DP-UPAP-00-22 Contract for funds to the obligations and qualifications that the recipient must have in order to receive payment, and therefore the change in the Contract for funds concerns two paragraphs of Article 8.

In Article 8 of the Contract for funds (Obligations of the Recipient), two paragraphs have been amended to clarify to which measures these obligations apply.

2. Modification of procedures in Division for administrative affairs³

This exemption refers to DP-DAA-HRM-07-Substitution plan.

According to the valid Substitution Plan, version 1.2, in the event of the absence of the Director of the IA, the Heads of Divisions are designated to act as substitutes—specifically, one of the Heads of the following Division: Division for Administrative Affairs, Division for Authorisation of Payments, or the Division for risk and irregularity management.

According to the exception, the State Secretary in the MAFWM is appointed as the substitute for the Director of the IA in the event of his/her absence.

The approved exception states that this amendment is necessary in situations where the Director has not been appointed or is absent, and there is an urgent need to sign official documents. In such cases, his/her absence may hinder the timely performance of official duties.

3. Modification of procedures in Unit for authorization of payments ⁴

The exemption covers the UAP Manual (DP-UAP-00) and related annexes (payment request forms M1, M3, M7; checklists M1, M3, M7; and Authorization Table DP-UAP-00-18).:

1. DP-UAP-00 Manual of UAP
2. DP-UAP-00-03-1 Payment request M1
3. DP-UAP-00-03-3 Payment request M3
4. DP-UAP-00-03-7 Payment request M7
5. DP-UAP-00-07-1 Check list M1

² Approved by the NAO on 21/02/2025

³ Approved by the Deputy NAO on 04/03/2025

⁴ Approved by the NAO on 28/03/2025

6. DP-UAP-00-07-3 Check list M3
7. DP-UAP-00-07-7 Check list M7
8. DP-UAP-00-18 Authorization table

These changes streamline payment procedures, improve documentation requirements, and ensure compliance with authorization limits.

4. Modification of procedures in Unit for publicity and authorization of projects⁵

I part of the exception

I part of the exception refers to DP-UPAP-00-06 Completeness and Eligibility check list for M1 (v 1.2).

1. The checklist was changed due to maximum support limits: EUR 3,000,000 for all measures and EUR 2,000,000 for Measure 1.
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, and maximum EUR 2,000,000 for Measure 1 also collectively for the programming period of IPARD II programme and IPARD III programme.
The IA amended DP-UPAP-00-06 Completeness and eligibility checklist for measure 1 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.
2. Alignment with the IPARD III program was added – in addition to Register of agricultural holdings, land must be registered in LPIS by the time of submission.
3. Eligibility criteria for the fisheries and aquaculture sector were reduced from 10t to 5t in accordance with IPARD III Program

II part of the exception

II part of the exception refers DP-UPAP-00-12 Applicant Register for M1 (v1.2) and for M3 and M7 (v1.0) The table was updated to reflect the revised support limits payable to recipients under Measure 1 and across all measures.

5. Modification of procedures in Division for on-the-spot control⁶

This exemption refers to DP-DOSDRDM-02-01 Check list for on-the-spot verification - prior approval M1 and DP-DOSDRDM-02-09 i.e., this refers to the verification of the altitude of agricultural holdings within

⁵ Approved by the NAO on 28/03/2025

⁶ Approved by the NAO on 19/09/2025

the application ranking process under Measure 1. In 2025, a ranking system for applications was introduced, in which altitude serves as one of the selection criteria.

It has been established that out of 344 holdings for which altitude needs to be verified, 120 holdings have already undergone checks during previous calls, which means that for these reference agricultural holdings, verified altitude data already exist.

If a recipient signs the contract and submits a Request for Payment, during the on-site control prior to payment, the Head of the UOSCr will instruct the inspectors to verify that the altitude and coordinates match those recorded before contracting (taken from previous public calls under the IPARD II Program).

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.

All listed exemptions require amendments to existing procedures. However, with regard to the exemption presented under point 2, AA considers that it should be treated as temporary. Namely, this exemption was initiated due to the termination of the IA Director's mandate on 27th February 2025 by the decision of the Administrative Court of Montenegro. It was justified by the need to ensure that the position of director could be replaced by a person authorized to sign, namely the State Secretaries of the MAFWM. On 7th March 2025, the Mr Marko Radonjic was reappointed and, according to the information received, no contracts were signed by the designated substitute during that period.

*However, the exemption itself states that "all current and future official documents will be signed by the State Secretary of the Ministry in case the Director of IA is absent or not appointed." AA is of the opinion that the management of IPARD should involve staff whose responsibilities formally include these tasks, i.e. members of the accredited structure. **Therefore, AA considers that the approved exemption be treated as temporary in nature.***

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 the procedures it is defined that in accordance with FPPA Annex A, Clause 4 (2)(b), the NAO shall inform the Commission without delay of any substantive changes to the systems, rules or procedures that relate to the budget implementation tasks entrusted to Montenegro. Therefore, based on NAO's assessment these exceptions are not related to substantial changes, and accordingly have not been communicated to the EC.

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)

No changes occurred to the Audit Strategy

3.2 Other changes of the audit strategy

No changes occurred to the Audit Strategy.

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 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 III is conducted based on procedures described in AA Manual of procedures for IPARD Programme, version 1.1, which was adopted in July 2025.

In the context of system audit for IPARD III, 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, Accounting body and NAO support office, for financial year 2025, are in line with the requirements set out in the Implementing Regulation (EU) 2021/2236 , Financial Framework Partnership 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 2025-2027, system Audit of for IPARD III was carried out through test of procedures as well as compliance testing.

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	13 years and 9 months	12 years and 9 months	P	Certified auditor/ State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Marko Tomčić	Authorized Auditor	7 years and 11 months	7 years and 11 months	P	Certified auditor/ State auditor	Compliance testing Test of procedures
	Maja Klikovac	Authorized Auditor	5 years and 5 months	5 years and 5 months	P	Certified auditor/ State auditor	Compliance testing Test of procedures
	Ksenija Krsmanovic	Junior Auditor	1 year and 5 months	1 year and 5 months	P		Compliance testing Test of procedures
	Maja Pejovic	Senior Auditor	11 months	11 months	P		The employee worked at IA for 8 years and 9

							<p>months. From 1st April 2025, has been employed at AA.</p> <p>In accordance with the Law on Audit of European Union Funds (OG 14/12, 54/16, 37/17 and 70/17), she may not perform an audit if she was employed by the audited entity within at least two years prior to carrying out the audit. Therefore, this employee was only involved in audits of MA and MS.</p>
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4.2 Summary table of the audits carried out

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

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	8. Estimated financial	9. State of follow-up (closed /or not)
January 2025-September 2025	Programme for Agriculture and Rural development of Montenegro - IPARD III No CCI: 2021ME06IPRD001	Audit Authority of Montenegro	Management structure (NAOSO and Accounting body) IPARD Agency, IPARD Managing authority	July 2025 – November 2025	Under the audit scope of system audit engagement for IPARD III were the following internal control framework components with relevant requirements: - Control activities - Information and communication - Monitoring activities	1. Inadequate verification of the eligibility criterion related to the lease agreement 2. Deficiencies in announcing of Public calls 3. Ineligible contracted amount regarding applicant with ID No. 24-01-3-0018 (Contract reference 09-908/24-22084/24) 4. Lack of a definition of a “mountain area” to the lease agreement 5. Ambiguous criteria regarding eligible sectors under Sub-measure 7.2 6. Insufficient justification for re-verification of prices related to applicant with ID 24-01-7.2-0011 (Contract reference 09-908/24-11077/17) 7. Insufficient information regarding “deadweight” and Maximum amount per measure and per programme 8. Delay in contracting process 9. Shortcomings in verification of investment in renewable energy 10. Delay in recording contracts in accounting software 11. Inconsistencies in the procedures 12. Omissions in document drafting	Related to Finding Inadequate verification of the eligibility criterion related to the lease agreement Further explanation given in Point 4.5 to this Report	/	1. Partially closed 2. Open 3. Open 4. Open 5. Open 6. Open 7. Partially closed 8. Open 9. Open 10. Open 11. Open 12. Open

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 shall perform 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 III Audit strategy.

System audit for IPARD III programme was performed based on the Audit strategy 2025-2027 which was submitted to the DG Agri on 29th November 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/processes for performing system audit.

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.

Considering the status of implementation of the IPARD III programme, risk assessment results as well as professional judgement, the AA decided to include in the system audit scope for FY 2025 three components of the ICF:

- Control activities
- Information and communication and
- Monitoring activities.

Taking into consideration that contract signing under Measures 3, 7.1 and 7.2 was ongoing, and no final and/or interim payments (operational transactions) had been made in the first two quarters of FY 2025, the AA performed compliance testing of the controls implemented by the IA up to the contract signing phase. AA decided to perform compliance testing on 5 contracts covering all measures within which the contracts were signed. Therefore, AA selected 2 contracts from measure 3, 2 contracts from sub-measure 7.1 and 1 contract from sub-measure 7.2, and thus a variety of measures and procedures were covered.

Additionally, the AA also verified 5 rejected applications to confirm the validity of the reasons for rejection and determined that each application was rejected for valid reasons.

For payments declared in Q3 and Q4 of FY 2025, AA performed compliance testing of operational transactions. For the purpose of compliance testing of operational transactions, selection procedure is explained in section 4.4 of this report.

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

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.

In addition to the system audit of the IPARD III Programme, in the financial year 2025 the Audit Authority also carried out compliance testing of the ex-post checks for IPARD II Programme, with the aim of determining whether the IPARD Agency acts in compliance with the requirements for ex-post controls laid down in Article 33(6) of the IPARD II programme and Article 14 of the Sectoral Agreement for IPARD II. The AA also confirmed that all projects paid in FY 2019 were subjects of ex-post control.

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 277 transactions (250 from measure 1 and 27 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.

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 III are as follows:

- The AA verified performing control activities from IA and DMS;
- The AA verified whether there is adequate segregation of duties;
- The AA verified existence of appropriate control procedures which ensures achieving of objectives;
- The AA verified whether adequate security procedures exist and are being implemented;
- The AA verified whether IPARD bodies report on exceptions as well as actions regarding justifying and approving of exceptions;
- The AA verified whether communication channels provide information in a timely manner and whether information is reliable, current, accurate, complete, accessible, protected, verifiable, filed and preserved;
- The AA verified whether internal and external communication are set up in order to achieve organisation objectives;
- The AA verified existence of whistleblowing hotlines and communication channels, available for reporting suspected irregularities or misconduct;
- The AA verified monitoring of performance of the internal control system which should identify internal control deficiencies, register and assess the results of controls.

- The AA verified whether corrective actions are taken in a timely manner for identified deficiencies by the staff member(s) in charge of the processes concerned, under the supervision of their management.

Auditors have reviewed written procedures which are connected to the ICF requirements within the audit scope. Auditors have checked whether the requirements set out in the Agreements, in the IPARD Programme and other relevant regulation are incorporated in the procedures of the relevant entities of the MCS.

When it comes to the ICFR 10 The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels, 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 of operational transactions, the AA used dual-purpose testing. Using IDEA software, AA randomly chose one sample for substantive testing of expenditure declared to the EC in FY 2025. Considering the number of transactions declared to the EC, 4 transactions were sampled for substantive testing, which were also subject to compliance testing. Since in the DG AGRI Guideline no 2, it is stated that compliance testing should be carried out on at least 10 transactions, AA selected additional 6 transactions from the total number that was declared to the EC in FY 2025. AA, using professional judgment, aimed to cover a variety of transactions, measures and procedures.

List of the transactions reviewed for the compliance testing of the operational transactions⁷ 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	09-908/24-21731/17	24-01-3-0009	3	Y	Y	Y	Y	N/A	N/A	733,785.00		Y
Payment N° 2	09-908/24-22093/19	24-01-3-0034	3	Y	Y	Y	Y	N/A	N/A	130,002.00		Y
Payment N° 3	09-908/24-11077/17	24-01-7.2-0011	7.2	Y	Y	Y	Y	N/A	N/A	9,332.00		N
Payment N° 4	09-908/24-11098/25	24-01-7.2-0004	7.2	Y	Y	Y	Y	N/A	N/A	3,258.62		N
Payment N° 5	09-908/24-22093/19	24-01-3-0034	3	Y	Y	Y	Y	N/A	N/A	94,772.92		N
Payment N° 6	09-908/24-20010/46	24-01-3-0015	3	Y	Y	Y	Y	N/A	N/A	253,236.60		N
Payment N° 7	09-908/24-5859/23	24-01-7.1-0009	7.1	Y	Y	Y	Y	N/A	N/A	18,995.75		N
Payment N° 8	09-908/24-22301/34	24-01-3-0049	3	Y	Y	Y	Y	N/A	N/A	167,893.61	420.29	Y
Payment N° 9	09-908/24-21728/21	24-01-3-0008	3	Y	Y	Y	Y	N/A	N/A	850,539.00		Y
Payment N° 10	09-908/24-21731/33	24-01-3-0009	3	Y	Y	Y	Y	N/A	N/A	76,102.50		N

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

The outcome of the compliance testing of operational transactions is summarized in the Final report of audit of operations for FY 2025. According to Guideline No.2, results of dual-purpose testing are presented in part 5.8.1 of this Report.

The list of the transactions reviewed for the compliance testing of the non-operational transactions are presented in Annex 3⁸ to this Report.

Number of operational transactions and non-operational transactions (advances) subject to compliance testing for IPARD III is presented in the table below:

⁷ Annex 1 to the Guideline No 3

⁸ Annex 2 to the Guideline No 3

Procedure	No of transactions tested	Findings (if any)
Administrative controls	10	Section 5.8.1
On-the-spot controls	10	Section 5.8.1
Payment procedures	10	Section 5.8.1
Accounting procedures	10	There were no findings
Advances/securities	8	There were no findings
Procedures for debts	0	There were no findings

The AA confirmed that ICF “Works”, but improvements are necessary related to the issues presented in the recommendations bellow, in the section 5.8.1 and 6.3 of this report.

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

➤ **Assessment for the IA**

Validation and authorisation – administrative controls

Findings:

Level of importance: <i>Major</i>	Body and area concerned: <i>IPARD Agency</i>
Finding number and title⁹: 1. Inadequate verification of the eligibility criterion related to the lease agreement	
KAC 2. Appropriate checks to ensure that investment/project/application fulfils all eligibility criteria as laid down in the regulatory framework and the eligibility criteria as laid down in the IPARD III programme (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a) 19 and 35 SA).	
Description of the finding: ICF (3) CONTROL ACTIVITIES <i>10. The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.</i> <i>Characteristics:</i> <i>10.1. Control activities are performed to mitigate the identified risks. They are tailored to the specific activities and risks of each entity and their intensity is proportional to the underlying risks.</i> <i>According to Article 25 of the IPARD Decree and point 8.3.2.6 of the IPARD III programme, applicants under Measure 3 may be eligible for support even when the investment involves procurement of equipment, devices, and machinery located in leased facilities and/or parcels, provided that the lease agreement is concluded for a minimum duration of ten years from the date of submission of the support application.</i>	

⁹ Following the ordinal number of findings from the Final report on system audit

This eligibility requirement is also stated in the First Public Call for Measure 3, and evidence thereof is requested through the List of Mandatory Documentation to be submitted with the application for support.

As regards national legislation, in the Law on Obligations¹⁰, Chapter XIV – Lease of Business Premises, Section 2 – Establishment of Lease, Article 639 – Form of Contract, the following is stipulated:

‘A lease contract for business premises must be concluded in written form and certified by the competent authority. A contract concluded contrary to this provision shall be deemed null and void’.

Further, Article 78 of the Law on the State Survey and Real Estate Cadastre¹¹ states:

“Real and personal servitudes, mortgages, super-mortgages, leases and concessions for a period longer than five years, the right of first refusal, and prohibitions on alienation and encumbrance are entered in the G list of real estate.” For a lease to be entered in the real estate registry, lease agreement must be certified by the relevant authorities.

Article 11 of the Law on Agricultural Land¹² states:

“Agricultural land may be leased. The lease agreement for agricultural land must be concluded in written form and certified by the competent municipal authority. The agreement referred to in paragraph 2 of this Article shall contain, in particular: the designation of the cadastral land type and class, the duration of the lease, and the amount of the rent.”

For purpose of compliance testing of contracts, AA sampled, inter alia a contract under Measure 3, for which auditors conducted test of controls. Sampled applicant with Application ID 24-01-3-0018 (Contract reference 09-908/24-22084/24) submitted request for support on 25th September 2024. With the request for support, applicant did not submit a lease agreement. Despite the fact that in this case the facility owner and the company owner (applicant) are the same person, submission of a lease agreement is still necessary. The lease agreement was subsequently requested through a supplementary documentation process. Recipient submitted a notarised lease agreement dated 26th March 2025, however, the IA requested additional one due to an invalid duration. Afterwards, almost 7 months after the request for support was submitted, applicant submitted a lease agreement that was signed and notarised on 10th April 2025 for a period of 15 years. Thus, submitted lease agreement is not in line with the requirements from Public call and national legislation.

Additionally, audit revealed that in the checklist used to verify completeness and eligibility for Measure 3, question addressing ownership criteria is well defined for construction, but not in case of equipping. Therefore, since the checklist for completeness and eligibility for Measure 3 does not include a clear question to verify compliance with eligibility requirement related to lease facilities in case of equipping, in order to confirm whether the IA has checked for every applicant the possession of valid lease agreement, AA requested the IA to provide a list of all contracted applicants under Measure 3 to rule out the possibility of similar omissions.

From the list of contracted projects, AA noted that additional 13 applicants have submitted lease agreements which were subsequently provided to AA for review. In 5 of them, AA noted the following:

1. Applicant with Application ID 24-01-3-0050 (Contract reference 09-908/24-22292/22) submitted request for support on 27th September 2024. According to the request for support and business plan,

¹⁰ „OG“ No. 047/08 from 07.08.2008, 004/11 from 18.01.2011, 022/17 from 03.04.2017, 123/24 from 23.12.2024

¹¹ „OG“ No. 029/07 from 25.05.2007, “OG” No. 073/10 from 10.12.2010, 032/11 from 01.07.2011, 040/11 from 08.08.2011, 043/15 from 31.07.2015, 037/17 from 14.06.2017, 037/17 from 14.06.2017, 017/18 from 20.03.2018, 084/24 from 06.09.2024)

¹² „OG“ No. 015/92 from 10.04.1992, 059/92 from 22.12.1992, 059/92 from 22.12.1992, 027/94 from 29.07.1994, "OG", No. 073/10 from 10.12.2010, 032/11 from 01.07.2011)

the investment is planned to be implemented at two locations — one owned by the applicant, where most of the equipment shall be installed, and the other leased.

Upon review of the submitted lease agreement, it is noted that the agreement was signed on 22nd June 2018 and annexed on 24th June 2021. The annex has been certified by the notary and the duration of the contract is 10 years. Meaning that recipient has submitted a certified lease agreement in time, however, it does not meet the requirement of having a 10-year lease agreement from the date of submission of the Application for Support.

2. Applicant with Application ID 24-01-3-0054 (Contract reference 09-908/24-22300/20) has submitted request for support on 26th September 2024.

Upon review of the submitted lease agreement, it was noted that applicant has submitted a contract signed by contracting parties on 15th July 2024 for a period of 11 years, however lease agreement has not been certified by a competent authority.

3. Applicant with Application ID 24-01-3-0002 (Contract reference 09-908/24-20017/23) has submitted request for support on 16th August 2024.

Upon review of the submitted lease agreement, auditors noted that the agreement was signed on 1st November 2021 for a period of 15 years, however, lease agreement has not been certified by a competent authority. Despite the fact that in this case the facility owner and the company owner (applicant) are the same person, submission of a lease agreement is still necessary.

4. Applicant with Application ID 24-01-3-0004 (Contract reference 09-908/24-20015/21) submitted request for support on 9th August 2024.

Regarding this recipient, AA received two lease agreements. The first one was signed on 1st July 2024 with duration 10 years. This Agreement was not certified and did not meet the requirement of having a 10-year lease agreement from the date of submission of the Application for Support. The second lease agreement was signed on 26th February 2025 for 10 years. The second agreement has been signed after the submission of application and has not been certified by a competent authority as well. Despite the fact that in this case the facility owner and the company owner (applicant) are the same person, submission of a lease agreement is still necessary.

5. Applicant with Application ID 24-01-3-0043 (Contract reference 09-908/24-22290/15) submitted request for support on 26th September 2024.

Lease agreement was signed on 1st July 2024 with a duration of 12 years. However, the agreement was notarised on 13th January 2025, after the request for support was submitted.

Taking into consideration that, in accordance with the IPARD III programme, the Decree and the public call for Measure 3, one of the eligibility requirements is submission of a valid lease agreement with a minimum duration of 10 years from the date of submission of request for support, AA considers that submitted lease agreements did not meet this requirement at the moment of submission of request for support. However, the IA contracted them despite that.

It is important to highlight that in the Article 68 of the Law on Obligations convalidation of contracts is described: ` A contract for which written form is required shall be considered valid even if it was not concluded in that form, provided that the contracting parties have fully or predominantly performed the obligations arising from it, unless it is evident from the purpose for which the form was prescribed that something else was intended.` Meaning that the IA, as a third party, could have accepted such lease agreements only upon receiving relevant evidence that the contracting parties had fully or predominantly fulfilled the obligations arising from them. Instead, the IA contracted mentioned applicants without further proving.

By analysing all the above, AA considers that this is a deficiency within the control system for verifying the eligibility criterion related to the lease agreement of facilities and/or parcels. Accordingly, AA considers this a deficiency of key control related to appropriate checks to ensure that the applicant fulfils all eligibility criteria of the support measure.

Additionally, AA conducted additional work to determine whether there are other measures that may be prone to the same type of error. According to Article 34 of the Decree for IPARD III, under Measure 7, investments in leased land or production areas are not eligible for support. Conversely, under Measure 1, applicants are eligible for support even when the investment involves the procurement of equipment, greenhouses, or the establishment of multi-year plantations on leased land and/or facilities, provided that the lease agreement is concluded for a period of at least seven years from the date of submission of the application for support. However, as of the date of this finding, no contracts between applicants and the IA have yet been signed under Measure 1.

Recommendation:

- Considering the possibility for convalidation that is predicted in article 68 of the Law on Obligations, the AA recommends an urgent response to ensure full validity of the lease agreements. The AA recommends the IA to:
 - confirm the existence of the lease by conducting on the spot checks in recipients' facilities,
 - prove that the lease is genuinely in effect from the moment the support application is submitted, i.e. that the contracting parties had fully or predominantly fulfilled the obligations arising from agreements.

Additionally, AA recommends to amend the existing valid contracts so that they have an adequate duration.

In the case of non-compliance with the above recommendations, the listed contracts should not be financed through the EU budget.

- IA should update the procedures to include a clear verification step for the lease agreement requirement in cases where the investment involves the procurement of equipment for applications under Measure 3 by including clearly defined questions related to:
 - duration of the lease in relation to the date of submission of the application (at least 10 years),
 - certification of the lease agreement by competent authority.
- In the future work, the IA should ensure that compliance with all conditions applicable established by the agreements, or laid down in relevant national law or in the IPARD programme, can be checked according to a set of verifiable indicators. This is achieved by clearly stating in the public call that only lease agreements certified by competent authority are considered acceptable.

IA and MA should clearly and unequivocally communicate with potential applicants this eligibility condition (lease duration + mandatory certification at the moment of submitting application), through guidelines for applicants and informative workshops to avoid misunderstandings and potential rejection of applications. Additionally, it should be emphasize that submission of a lease agreement is still necessary despite the fact that the facility owner and the company owner (applicant) are the same person.

Auditee's response:

IPARD Agency

The recommendation is accepted.

In relation to the first statement, concerning the validity and credibility of evidence of land lease or the right of use for a period of at least ten (10) years from the date of submission of the Application for Support under the First Public Call for Measure 3, the IA states the following:

For additional legal certainty, in the situations in question, users were requested to perform a contract validation by having their signatures notarized, as well as to provide statements from the contracting parties, also notarized, in which it would be emphasized that the contract has produced legal effects from the moment of its signing. This is beyond doubt for this public authority, given that the subject matter of the contract has been executed, as evidenced by the realization of the investment under the IPARD programme.

We note that the contracts were already valid, in accordance with Article 68 of the Law on Obligations, and produced legal effects in terms of their execution. The notarization serves to additionally validate them due to the involvement of a third party, namely this public authority.

For contracts that did not contain an appropriate validity period, the users/contracting parties submitted an amended lease agreement and extended it for the appropriate period in accordance with the public call.

Upon renewed review of the Lease Agreements, as well as an on-site field inspection, it was established that the contracting parties in all six agreements had been fulfilling their contractual obligations even before the agreements were formally concluded and before the publication of the Public Call.

Specifically,

- For three users (ID 24-01-3-0050, ID 24-01-3-0004, ID 24-01-3-0002), it was confirmed that they had validly concluded contracts even before the Public Call was announced. Namely, of these three users, two users (ID 24-01-3-0004, ID 24-01-3-0002) had previously received support through IPARD for the procurement of equipment placed in the facilities subject to the lease, and for which they hold notarized lease agreements, which we provide in the addition.

Additionally, the users implemented the respective investments and were paid accordingly, so the field inspection confirmed that the relevant equipment was installed in the leased facilities and that they are being used in accordance with the contractual obligations. Additional evidence includes the Opinion of the Food Safety Authority confirming that the leased facilities meet all food safety standards and are registered in the Central Register of Approved Facilities.

One user (ID 24-01-3-0050) had a notarized lease agreement for the facility at the time of application, and the field inspection confirmed that the facility in question is being used in accordance with the contractual obligations, and that processing and production activities were already taking place there.

- For two users (ID 24-01-3-0018, ID 24-01-3-0043), the field inspection established that the facilities subject to the lease are being used in accordance with the contractual obligations. Specifically, the users ID 24-01-3-0018 had already procured part of the equipment, which is located in the leased facilities, while other user is carrying out the reconstruction of the leased facility, as specified in the lease agreement itself.
- For one user (ID 24-01-3-0054), evidence was submitted showing that part of the investment is in the implementation phase; the equipment is currently at customs. Once the IA is informed that the equipment has arrived to the user, a field inspection will be carried out to determine

whether it is being installed in the relevant facility, after which evidence will be submitted to the AA.

In relation to above stated please find relevant documentation on the link bellow:

<https://send.tresorit.com/a#nv982gjUDSyQsgWkQT90Fw>

Furthermore, the upcoming Public Calls will define the obligation for users to submit notarized lease agreements for immovable property for a period of at least 10 years from the date of submitting the application.

Additionally, with the amendment of the procedures, version 2.0, the list of required documentation—which forms an integral part of Form 1 (Application for Support) and therefore also the Public Call—precisely states that all lease agreements must be notarized by the competent authority.

- Furthermore, in the completeness and eligibility checklists of the Sector for Advertising and Project Authorization, a separate question has been introduced regarding the verification of evidence of land lease or right of use for a period of at least ten (10) years from the date of submission of the Application for Support, for all investments related to the procurement of equipment installed in leased facilities.

Conclusion by the AA:

The AA notes that certain steps have been carried out regarding the first part of the recommendation:

- the lease agreements have been notarized;
- notarized statements between the lessor and the lessee have been submitted, confirming the validity of the agreements from the moment of submission of the request for support;
- on-the-spot controls have been conducted for some applicants.

Additionally, the IA submitted a document related to the applicant with Application ID 24-01-3-0050 (Contract reference 09-908/24-22292/22) that had not previously been available to AA for review. Specifically, an Annex to the Lease Agreement dated 27/09/2024 was provided and notarized on 30/09/2024. Upon examination of the document, it was established that the lease is valid until 27/09/2036, which is in line with the requirement set out in the Public Call (a minimum duration of 10 years from the date of submission of the request for support). Therefore, the AA concludes that the applicant meets the required conditions, namely the lease duration and mandatory certification at the moment of application submission.

Amendments to the procedures, the publication of future public calls, and the continued compliance with all the recommendations from this finding will be monitored in the course of further audit work.

Quantification of the financial impact: N/A

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

February 2026:

IPARD Agency:

The recommendations have been accepted and respectively implemented in the 2.0 draft of the procedures, which has not yet been approved by the NAO. As we are obliged to align the existing procedures with the new organizational structure of Agency, these changes will also be incorporated into the new versions of the Agency's manuals. A question has been added to the checklist referring

exclusively to the verification of leased premises. In the Application Form, within the section listing the required documents, it has been emphasized that the document must be notarized.

AA follow up status: Partially closed

The implementation of the recommendation regarding amendments to the procedures and the publication of public calls, will be further monitored.

<p>Level of importance: Major</p>	<p>Body and area concerned: IPARD Agency</p>
<p>Finding number and title: 3. Ineligible contracted amount regarding applicant with ID No. 24-01-3-0018 (Contract reference 09-908/24-22084/24)</p>	
<p>KAC 3. Appropriate checks on the eligibility of the costs of the operation (Article 11(2)(d) SA)</p>	
<p>Description of the finding:</p> <p>ICF (3) CONTROL ACTIVITIES</p> <p>10. The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.</p> <p>Characteristics:</p> <p>10.1. Control activities are performed to mitigate the identified risks. They are tailored to the specific activities and risks of each entity and their intensity is proportional to the underlying risks.</p> <p>Applicant with application ID 24-01-3-0018 (Contract reference 09-908/24-22084/24) applied for support under the first public call for Measure 3, with the investment title “Enhancement of processing capacities through the establishment of a plant for the processing of fruits and vegetables and juice production”. With the request for support, the applicant submitted the following:</p> <ul style="list-style-type: none"> • An offer from MG Mold 84, reference P 21-08-24 dated 21.08.2024, for an automatic PET bottle blowing machine; and • An offer from King Machine, reference 20240820LJ1 dated 20.08.2024, for a PET bottle filling and packaging line and an apple juice processing machine. <p>During compliance testing of this contracted project, auditors identified following:</p> <p>Upon review of the submitted documents, IA advisors identified that the supplier King Machine originates from a non-eligible country. Consequently, through a request for additional documentation, the IA required the applicant to submit a new offer, compliant with the rule of origin, <u>but with the same prices and purpose as the initial one</u>. AA considers that the IA’s requirement for the applicant to submit a new offer from another supplier with the same prices as the original one is contrary to procurement rules and the principles of fair market competition. While it is acceptable to request a new offer equivalent in technical terms and investment purpose, the price must reflect real market conditions and cannot be conditioned to match the amounts of the initial offer. In response dated 31st December 2024, the applicant submitted an offer from a new bidder MG Mold 84, with the same prices and the same items (brands) as the initial King Machine offer. Also, the new offer has the same date and reference number (20240820LJ1 of 20.08.2024). EVC conducted market research by contacting other company and assessed that the proposed prices are reasonable.</p>	

- Further review of documentation collected from IA, auditors found two offers from MG Mold 84 with the same reference number and date (20240820LJ1 of 20.08.2024), and the same total amount, but with different unit prices. Upon inquiry, IA explained that the applicant subsequently submitted a revised offer because the first one included gross prices, and the supplier gave a discount to the applicant. However, the discount was only reflected in the total sum and not in individual line items, which is why the second offer included adjusted prices with discounts incorporated. Since the offers were submitted by the same supplier, with the same reference number and date, and with the same total amount, while only the total value is stated in the contract, AA considers that there was no adequate audit trail to determine which offer was subject to contract.
- Additionally, in the MG Mold 84 offer for the PET bottle filling and packaging line, the last item is Air dryer + air filter system (128meters * 323 EUR). Based on the accompanying technical specifications, it was noted that the item represents one-piece Air dryer and filter system, which cannot be presented using meters as a unit of measurement. Furthermore, review of the initial King Machine offer showed that the air dryer and filter system was included as part of line item 9 (Screw type low pressure air compressor for packing and filling part), whereas line item 10 referred to Conveyors stock – additional safety for bottle stock, corresponding to the quantity of 128 meters. Therefore, AA considers that an error occurred in transcribing items, quantities, and amounts, and IA contracted the last item with an invalid unit of measure and, consequently, with an unacceptable price. Accordingly, item Air dryer + air filter system 128m * 323 EUR from the MG Mold 84 offer for the PET bottle filling and packaging line is ineligible for financing.

Recommendation:

The AA recommends that the IA:

- In future work, requires offers that are equivalent in technical terms and investment purpose, but with prices reflecting actual market conditions;
- Maintain clear and consistent documentation of received documents to ensure an adequate audit trail and reduce the risk of ambiguities or subsequent interpretations. Furthermore, IA should require applicants to submit a single, final, and certified version of the offer that accurately reflects the agreed contractual terms, with clearly itemized unit prices, discounts and total amounts;
- Exclude the item no 10 Air dryer + air filter system from financing and reduce the amount of eligible support by EUR 20,672.00 (calculated as $128m * 323 \text{ EUR} = \text{EUR } 41,344.00 * 50\%$ support).

Auditee's response:

IPARD Agency

The offer for the mentioned production line was submitted together with the Application for Support and was issued by a Chinese company. The offer contained ten (10) items, including the conveyor belt which, according to the auditor's findings, was deemed "disputable." Through the Notification on Supplementing Documentation, the beneficiary was requested to provide a new offer from a supplier listed among the Eligible Countries for Support.

In the same Notification, the beneficiary was instructed to submit an offer with the same amounts and purpose, in order to emphasize that the beneficiary is not allowed to increase the amount stated in the originally submitted Application.

Furthermore, if there had been an increase in prices, it would have resulted in inconsistencies between the amounts stated in the Application and the Business Plan (within the investment structure), which would have required additional documentation updates and adjustments, affecting the entire economic analysis.

Given that, according to procedure, the beneficiary is obliged—after signing the Grant Agreement—to publish a Call for Submission of Offers (i.e. conduct a procurement procedure), IA considers that the controller's actions in this case could not have influenced either the acceptable amount of the offer or the choice of supplier.

The beneficiary then submitted an offer from the supplier MG Mold d.o.o., where, during preparation, the supplier made a technical error: the item “air dryer,” which is actually a part of the previous item, was listed as a separate one, and the characteristics of a conveyor (128 m, €40,000) were incorrectly added to it.

However, during the price reasonableness check, the Evaluation Committee does not assess the prices of individual components within the production system (“production line”) but evaluates the entire line as a complete system.

Justification of the price realism and cost-effectiveness of the PET bottling and packaging line the subject of procurement refers to an automated system for filling and packaging PET bottles, intended for juice production and packaging, with a total value of €480,174.00 excluding VAT.

As this is a complex automated system with a high level of integration, the price inquiry was made for the entire technological solution, which includes multiple interconnected components and devices essential for the system's functionality and operational continuity.

The offer was submitted by a company experienced in manufacturing and installing similar systems, which, when forming the price, conducted a detailed assessment of all technical components and based it on a reference project of the same capacity and similar characteristics implemented in Albania — for a water bottling and packaging system (as evidenced in correspondence). The value of that reference line was USD 500,000.

The comparative market estimate, obtained through an international offer from the Chinese company Faygo Machinery, for a line of the same capacity (12,000 bottles/hour) intended for water bottling, amounted to USD 500,000 excluding VAT (i.e. €490,677.13 excluding VAT).

It is important to note that a juice filling line is technologically more demanding — and therefore more expensive — than a water bottling line, as the process requires stricter sanitary and temperature conditions.

This line includes the installation of an ultra-clean device (5-in-1 system), two disinfection stages necessary to ensure microbiological safety and product quality, as well as additional technical elements ensuring temperature control, sterility, and product safety during filling. These additional requirements significantly increase the equipment's value compared to standard water bottling lines, which justifies the stated price.

A special component of the offer refers to the so-called “safety transporter” — an additional conveyor designed to temporarily retain and store bottles in case of stoppages in any part of the system (e.g. in the packaging machine).

Thanks to this device, the filling machine can continue operating during temporary interruptions elsewhere in the line, ensuring production continuity and preventing losses caused by process disruptions.

Although the system can technically operate without this component, the inclusion of the “safety transporter” represents a technological improvement that enhances the efficiency, safety, and reliability of the production process.

Considering the technical complexity of the juice filling system, comparable market offers and references for similar lines, and the fact that the price of €480,174.00 excluding VAT includes the safety transporter without additional costs, it can be concluded that the offered price is realistic, economically justified, and fully aligned with market conditions and the scope of the technical requirements of the procurement.

Regarding the audit findings related to the supplier MG Mold 84 and the applied discount we emphasize the following:

The submitted offers — the first submitted with the documentation supplement on 31 December 2024, and the second sent by email on 5 May 2025 by the same supplier — are identical in terms of listed items and total amount.

After receiving the offer through the Notification on Documentation Supplement, the controller prepared a working calculation and noticed that the discount had been applied to the total amount of the offer. For easier calculation of eligible costs, the beneficiary was asked via email to provide clarification regarding the discount applied per item.

In response, the beneficiary submitted a new offer, identical to the previous one in number, date, and listed items, but this time with the discount calculated per item instead of on the total amount.

In the working calculation, the controller clearly listed each item and calculated the value for each one individually.

IA cannot influence the supplier regarding the format in which the new offer will be provided, as long as it meets the formal requirements of an offer — which, in this case, it does — especially considering that suppliers generate offers through specialized software systems.

For easier recordkeeping and to ensure a clear audit trail, IA will henceforth explicitly indicate which offer is the final contracted one.

Conclusion

In line with the above, the IA informed the beneficiary that the item referred to as the “safety transporter” is not acceptable and initiated the procedure for amending the contract. The beneficiary has received the notification regarding the execution and after providing their statement, the IA will sign the Contract

Amendment with the beneficiary.

The evidence is provided on the link:

<https://send.tresorit.com/a#nv982gjUDSyQsgWkQT90Fw>

Regarding the audit finding on the formulation of requests to beneficiaries (notes on items requested in the Notification on Supplementing Documentation), IA will ensure in the future that all requests and formulations addressed to beneficiaries strictly comply with the List of Required Documentation.

Regarding the contracted offer, IA will also, for the sake of clearer recordkeeping and an adequate audit trail, explicitly indicate which offer has been finally contracted.

Mail from 12/12/2025 from IA:



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Conclusion by the AA:

Following a review of IA's initial response and the subsequent clarification provided via email (12/12/2025), AA maintains its original position as stated in the audit finding. Going forward, AA **will closely monitor the implementation of all recommendations** outlined under this section to ensure full compliance with procurement rules and principles of fair market competition and transparency.

Quantification of the financial impact: N/A

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

February 2026:

IPARD Agency:

The Agency has prepared Annex to the Contract, and as soon as the user signs the Annex, it will be delivered to AA. Additionally, the Agency will, in the future, leave a clear audit trail of the agreed-upon offer.

AA follow up status: Open.

The implementation of the recommendation will be further monitored.

Level of importance:

Major

Body and area concerned:

IPARD Agency

Finding number and title: 4. Lack of a definition of a "mountain area"

KAC 1. Appropriate checks to ensure that the applicant fulfils all eligibility criteria of the measure (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a), 19 and 43 of the Sectoral Agreement (SA))

Description of the finding:

ICF (3) CONTROL ACTIVITIES

12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.

Characteristics:

12.1. Appropriate control procedures ensure that objectives are achieved. The control procedures assign responsibility for control activities to the entity or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.

ICF (4) INFORMATION AND COMMUNICATION

15. The organisation communicates with external parties about matters affecting the functioning of internal control.

Characteristics:

15.1. External communication. All entities ensure that their external communication is consistent and relevant to the audience being targeted. The organisation establishes clear responsibilities to align entities' communication activities with the organisation's priorities and narrative.

According to SA, Annex 8, point 3.1, the IPARD Managing Authority/IPARD Agency shall ensure that potential recipients have access to the relevant information, including updated information where necessary, and taking into account the accessibility of electronic or other communication services for certain potential recipients, on at least the following:

d) the criteria for selecting the operations to be supported.

According to Article 18 of the IPARD Decree from August 2024 and point 8.3.1.10 of the IPARD III programme - Aid intensity and EU contribution rate, applicants under Measure 1 may receive public aid to a maximum of 60% of the total eligible expenditure of the investment.

Further, public aid is allocated up to 65% for investments in physical assets of **agricultural holdings in mountain areas**, or 70% for investments made by young farmers and/or certified organic producers. The same is also stated in the First Public Call for Measure 1.

In point 8.3.1.9, selection criteria for the Measure 1 are presented. Applicant shall receive 10 points in case the agricultural holding is located in mountain areas. The same selection criteria has been defined in point 8.3.2.9 for Measure 3 as well.

However, in the IPARD III programme and Decree for IPARD III, there is no definition of the "mountain areas". In ANNEX II of the IPARD Programme – Rural and mountain areas, rural areas are clearly defined, whereas "mountain areas" are not defined at all. For Measure 1, the only document that more precisely defines "mountain areas" is Form 1 – Application for support, which was published along with the Public Call for Measure 1, where an altitude of 600 meters is mentioned as a reference to a "mountain area". This is not the case with the Public Call for Measure 3.

The AA noted that checklist used to verify the completeness and eligibility for Measure 1, in ranking criteria states that the "mountain area" refers to agricultural holdings in at least 600 meters above sea level. The checklist for completeness and eligibility for Measure 3 states only 10 points for the investment in "mountain areas", but does not specify what is considered a mountain area.

The lack of a clear and uniform definition of "mountain areas" in the IPARD III Programme creates legal and procedural inconsistencies. Although the criterion of 600 meters above sea level appears in the application form and the checklist for Measure 1, this criterion has not been consistently applied in Measure 3. Such ambiguity may lead to different interpretations, unequal treatment of applicants, and reduced transparency in the selection and ranking process. Moreover, the absence of a consistent definition may also result in potential financial errors, including misallocation of public aid and incorrect calculation of eligibility thresholds, thereby jeopardizing the accuracy and fairness of fund distribution.

Recommendation:

The AA recommends following:

- The IPARD III Programme should clearly define "mountain areas" and establish the altitude threshold to be considered eligible for additional public aid and ranking points. Furthermore, the

IPARD Decree and IA procedures should be fully harmonized with the amended IPARD III Programme to ensure consistency, transparency, and equal treatment of applicants.

Auditee's response:

IPARD Agency

The recommendation is accepted.

We recognize the importance of clearly defining the criteria related to "mountain areas," especially considering their impact on the support intensity and the ranking of beneficiaries within the IPARD III Programme.

With regard to the findings, the IA and the MA have, in the latest amendment to the IPARD Regulation, precisely defined the term mountain area, thereby eliminating the previous ambiguity in the regulatory framework.

Following this amendment to the Regulation, the next amendment to the IPARD III Programme will include the formal incorporation of this definition into the Programme itself, in order to ensure full alignment of all strategic and operational documents.

We also emphasize that, during the implementation of the active Public Call for Measure 1, and for the purpose of ensuring legal certainty and equal treatment of all applicants, the application of the criteria relating to mountain areas was aligned with:

Form 1 – Application for Support, which clearly states in the section "Information on the Investment" that a mountain area is considered to be an area above 600 m.

This form constitutes an integral part of the Public Call and was published on the official website together with all accompanying documentation. In this way, the information was fully accessible to all potential beneficiaries and can therefore be considered a valid and applicable criterion for:

- determining eligibility for support, and
- awarding points based on belonging to a mountain area.

In this manner, transparency of the process, equal access to information, and consistent application of the criteria were ensured until the formal inclusion of the definition of mountain areas into the IPARD Programme in the framework of the upcoming amendments.

IPARD MA

- In the current draft amending Decree on the Implementation of the Procedure of Using Funds from the Instruments for Pre-Accession Assistance of the European Union (IPARD III programme), a single definition of a mountain area is given, which reads: "mountain areas for the purposes of the implementation of the IPARD III programme are those areas located at an altitude above 600 m above sea level", while in the next version of the IPARD III programme, a definition of mountain areas will be added in Annex II.

Conclusion by the AA:

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: N/A

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

February 2026:

IPARD MA:

IPARD MA initiated the amendment process of the IPARD III programme during December 2025. As mentioned before one of the amendments will be in the Annex II, were a comprehensive and unified definition of the term “mountain area”, applicable to all measures, will be provided.

AA follow up status: Open.

The implementation of the recommendation will be further monitored.

Level of importance: <i>Intermediate</i>	Body and area concerned: <i>IPARD Agency</i>
Finding number and title: 6. Insufficient justification for re-verification of prices related to applicant with ID 24-01-7.2-0011 (Contract reference 09-908/24-11077/17)	
KAC 7. Appropriate evaluation of the reasonableness of costs using a suitable evaluation system, such as reference costs, standard unit costs, a comparison of different offers or an evaluation committee (Article 11(2)(f) SA)	
<p>Description of the finding:</p> <p>ICF (3) CONTROL ACTIVITIES</p> <p><i>10. The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.</i></p> <p><i>Characteristics:</i></p> <p><i>10.1. Control activities are performed to mitigate the identified risks. They are tailored to the specific activities and risks of each entity and their intensity is proportional to the underlying risks.</i></p> <p>Applicant with Application ID 24-01-7.2-0011 (Contract reference 09-908/24-11077/17) applied for two items under the first public call for Measure 7.2, for investment titled `Procurement of equipment for wild pomegranate juice production`. In the applicant's file, the Audit Authority found a checklist from the Evaluation Committee and opinion on the reasonableness of price dated 05.09.2024, indicating that market research had established a price of EUR 2,300.00 (excluding VAT) for the item Pneumatic juice filling machine + mixer + 2 filling heads, with similar characteristics to the one offered. Consequently, the applicant's proposed price of EUR 6,200.00 was not accepted; instead, in accordance with the relevant procedures, a price of EUR 2,300.00 plus 10% (i.e. EUR 2,530.00) was approved by the Unit for technical and economic analysis.</p> <p>However, the case file also includes a new checklist of the EVC on reasonableness of price dated 14.04.2025, which determined a new market price of EUR 3,432.04. As a result, a revised opinion was issued approving a new price of EUR 3,432.04 + 10%, i.e. EUR 3,775.24, which was consequently included in the contract. In the Checklist for completeness and eligibility, controllers stated that a new price inquiry was initiated due to the significantly reduced price. In communication with the IA, auditors were informed that an offer which has been found better meets the applicant's requirements.</p> <p>The AA considers that the explanation claiming the price was reduced excessively does not constitute a sufficiently justified reason to initiate a new price verification, even though by analysing the new market research, AA noted that the EVC has indeed come up with an offer that, to a greater extent, corresponds</p>	

to the technical specifications provided by the applicant. In the future work, the IA should take into consideration the time gap involved, which makes price changes logical. Additionally, the IA should take care of the duration of the overall application process.

Additionally, for item *pomegranate peeler machine*, in the checklist from the Evaluation Committee and opinion on the reasonableness of price dated **05.09.2024**, it is stated that market research had established a price of EUR 15,500.00 (excluding VAT) and the applicant's proposed price of EUR 14,700.00 was accepted. However, a review of the submitted evidence reveals that the machine found on the market was offered with a price in US dollars, not in euros as stated in the checklist.

By checking the exchange rate on 05 September 2024 (1 EUR = 1,1097 USD), the AA confirmed that the stated amount of 15,500 USD would be approximately 13.967,74 EUR.

In accordance with the prescribed procedure, if 10% is added to the identified price, the recipient price is considered reasonable, and there is no need for correction of the price.

Recommendation:

The Audit Authority recommends:

- the IPARD Agency to conduct repeat price verifications only when there is a justified and well-documented reason, as such procedures are time-consuming and negatively impact the efficiency of the application evaluation process.

carefully review the evidence submitted by EvC and ensure the exact amount of support in order to avoid subsequent financial corrections.

Auditee's response:

IPARD Agency

The recommendation is accepted.

IA provides the following explanation regarding the stated situation.

The offer for the procurement of juice filling machines was submitted to the Evaluation Committee for a price reasonableness review on 2 August 2024. The Committee issued its Opinion on 5 September 2024, stating that the price of the specified machine was not realistic and that the acceptable price should be €2,530.

As justification, the Committee provided references to its professional experience, explaining that it had received offers from suppliers for similar machines and, based on those offers and its expertise, concluded that the quoted price was not realistic and therefore proposed the acceptable price.

After the application was processed, it was determined that it met all the conditions and criteria of the call, and that a contract could be signed with the beneficiary.

During the supervisory review of the contractual calculation, it was found that the price had been significantly reduced and that the machine characteristics used by the Committee in its initial market research were not identical to those of the machine being procured — they were similar but not the same.

At that point, the Committee was requested (by email dated 11 April 2025) to perform a re-evaluation of the machine price.

The Committee subsequently located a supplier offering the identical machine requested by the beneficiary and adjusted the price to €3,432.

Specifically, in this case, the initially identified filling machines had similar technical characteristics, found through online research and domestic suppliers from Serbia, since at that time no response had been received from the manufacturer producing the identical filling machine model.

Based on the available information and offers, an initial price estimate was made.

After receiving a later response from the manufacturer and the official offer for the identical filling machine, it was established that the factory price was higher than the initially estimated one.

Accordingly, a correction was made and a new price was determined, in line with the official offer from the manufacturer.

With regard to the recommendation concerning the control of evidence submitted by the EcV, the IA provides the following response:

Every checklist and every piece of evidence received from the Evaluation Commission is carefully reviewed in accordance with the applicable procedure. The controllers responsible for processing these documents issue a final opinion after a detailed verification, thereby ensuring accuracy and compliance with the rules and reducing the risk of potential financial corrections.

Conclusion by the AA:

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: N/A

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

February 2026:

IPARD Agency:

The IPARD Agency confirms that repeating of price verifications will be conducted only when there is a justified and well-documented reason, and after supervision is performed.

AA follow up status: Open.

The implementation of the recommendation will be further monitored.

<p>Level of importance: Intermediate</p>	<p>Body and area concerned: IPARD Agency</p>
<p>Finding number and title: 8. Delay in contracting process</p>	
<p>KAC 1. Appropriate checks to ensure that the applicant fulfils all eligibility criteria of the measure (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a), 19 and 43 of the Sectoral Agreement (SA))</p>	
<p>KAC 2. Appropriate checks to ensure that investment/project/application fulfils all eligibility criteria as laid down in the regulatory framework and the eligibility criteria as laid down in the IPARD III programme (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a) 19 and 35 SA)</p>	
<p>Description of the finding: ICF (3) CONTROL ACTIVITIES</p>	

12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.

Characteristics:

12.1. Appropriate control procedures ensure that objectives are achieved. The control procedures assign responsibility for control activities to the entity or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.

During compliance testing of five contracted projects under IPARD III programme, the AA auditors have identified delay in contracting process.

Namely, from the moment of receiving Application form until signing Contract for allocation of funds, passes more time than objectively is necessary. For five tested projects, applications were processed in an average of 276,8 days. Comparing with projects from compliance testing of IPARD II programme in FY 2023, where auditors identified average of 143,6 days, it could be noticed large increase in delay of application processing. One of the causes is issuing opinion by Administration for Food Safety, Veterinary and Phytosanitary Affairs (hereinafter AFSVP) regarding relevant EU and national standards. For example, regarding recipient with ID No. 24-01-7.2-0011 (Contract ref. 09-908/24-11077/17), AFSVP issued opinion after 201 day.

It should be emphasized that these delays may cause de-commitment of funds, considering fact that Financing Agreement was signed in February 2024.

Recommendation:

AA recommends that the IA take serious and appropriate measures to shorten the duration of the contracting process, such as defining the conditions and requirements in the calls and accompanying documents more clearly and unambiguously, strengthening staffing capacities in the contracting area, providing various trainings, and similar actions.

In order to reduce delays in the contracting process under the IPARD III programme and thus potential de-commitment of funds, the IA should strengthen inter-institutional coordination, particularly with the Administration for Food Safety, Veterinary and Phytosanitary Affairs. IPARD Agency, in cooperation with AFSVP, should explore options to improve efficiency, such as establishing clear deadline for issuing opinions which could significantly shorten the average processing time.

Auditee's response:

IPARD Agency

The contracting process is the first phase of application processing during the implementation of the measures, and it is also the phase that lasts the longest, for several reasons:

- first of all, in IPARD III has much more complex applications compared to IPARD II, and the same number of staff in the Department for Advertising and Project Authorization work on all the applications.
- several different measures are processed simultaneously, and the same staff work on all of them;
- during this phase, the largest number of controls is carried out, which are necessary to verify the eligibility of all applications.

Not all controls depend solely on the controllers in the Department for Advertising and Project Authorization. Part of the control is carried out by Technical Bodies and the Evaluation Commission, and

the nature of these controls is highly complex, as they include technical, administrative, and financial verifications of documentation.

An additional challenge is incomplete documentation submitted by users, including waiting for specific documents, permits, and certificates issued by other institutions. Users must wait for these documents, which often results in prolonging the overall processing time.

Furthermore, the processing of applications must be conducted in accordance with the Law on Administrative Procedure, which further complicates the process. Under the Law, users have the right to supplement and correct their documentation multiple times, and at any moment, there is a possibility that a project may be returned to a repeated procedure, even if in the first round of controls it did not meet the conditions and criteria of the Public Call.

These are only some of the key factors that affect the duration of application processing.

The IA is aware that the contracting period must be shorter, as the duration of processing directly affects the final goal – the timely absorption of funds.

We are undertaking a series of measures to accelerate the process, including improvements of internal procedures and strengthening coordination with other institutions.

With the amendment of the IPARD Programme, the scoring criteria will be revised, and procedures will be adjusted so that the scoring process is carried out at the very beginning of the call, to avoid processing all applications when there are insufficient funds for all, thus shortening the application processing period.

It is important to emphasize that certain steps do not depend solely on the IPARD Agency, particularly with regard to future planned employment, in order to increase the number of staff and thereby reduce the workload on current employees and speed up the application processing procedure.

More precisely, the publication of Public Calls will be planned in a way that avoids situations in which several measures are processed at the same time.

Regarding the improvement of cooperation with the Food Safety Authority (UBH), a meeting was held with UBH management at which issues causing delays in application processing were discussed. The process of issuing Certificates that facilities are registered in the Central Register of Approved Establishments was identified as one of the main reasons for delays, given that they fall under the requirements of Chapter 12, and in this respect, users, facilities, and production must be aligned with EU food safety standards. Since daily inspections of facilities are carried out and positive opinions are issued in line with established procedures, it was agreed that beneficiaries of Measure 3 will be prioritized when issuing these certificates, in order to reduce delays.

With regard to Measure 1, the process of controlling applications and animal welfare standards on farms is continuously ongoing, although the deadlines specified in the Memorandum of Cooperation are not always followed.

A Memorandum of Cooperation was signed between UBH and the IA, clearly specifying that UBH must respond to applications within 30 days, but these deadlines are not consistently met.

- In the coming period, an additional meeting will be held with UBH management to jointly identify solutions for faster processing of applications by UBH, with full respect of the defined deadlines.

<p>Conclusion by the AA:</p> <p>The implementation of the recommendation will be further monitored.</p>
<p>Quantification of the financial impact: N/A</p>
<p>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</p> <p>February 2026: IPARD Agency:</p> <p>A meeting was held with the Food Safety Authority (UBH) representatives, and a schedule for processing cases for Measure 1 was agreed upon. Field inspections by UBH, as well as administrative verification of requests by the animal welfare control, are currently underway.</p> <p>AA follow up status: <u>Open</u>.</p> <p>The implementation of the recommendation will be further monitored.</p>

<p>Level of importance: Intermediate</p>	<p>Body and area concerned: IPARD Agency / Managing Authority</p>
<p>Finding number and title: 9. Shortcomings in verification of investment in renewable energy</p>	
<p>KAC 2. Appropriate checks to ensure that investment/project/application fulfils all eligibility criteria as laid down in the regulatory framework and the eligibility criteria as laid down in the IPARD III programme (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a) 19 and 35 SA)</p>	
<p>Description of the finding:</p> <p>ICF(3) CONTROL ACTIVITIES</p> <p>12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.</p> <p>Characteristics:</p> <p>12.1. Appropriate control procedures ensure that objectives are achieved. The control procedures assign responsibility for control activities to the entity or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.</p> <p>In the IPARD III Decree, Articles 16 and 27 – Investments in Renewable Energy Sources for measures 1 and 3 stipulate that Investments in renewable energy plants on the farm can be supported if the "self-consumption" limit is respected. The concept of "own consumption" is checked in the approval phase of the investment. The investment is considered acceptable when the energy capacity of the plant for renewable energy sources does not exceed 120% of the three-year average consumption of the farm.</p> <p>Additionally, it is stated that in case the user repeatedly invests in renewable energy sources, the IPARD Agency/Directorate for payments is obliged to take into account the existing energy production on the farm when assessing the level of self-consumption. The same requirements are reflected in the Public Calls.</p> <p>In the IPARD III programme for Measure 1 is the same definition, while for Measure 3 is stated: <u>'If this investment is previously supported through IPARD, the production of these plants is included in the</u></p>	

calculation of energy production / consumption. ` By analysing this definition, it is not clear does it take into account investments in renewable energy through IPARD II, or only through IPARD III.

Through the analysis of IA procedures, checklists and working document for calculation of energy self-consumption, it has been identified that in the calculation of the three-year average consumption, IA does not take into account the own production of the beneficiary. There is no question or control point related to this issue in the checklists for completeness and eligibility. Consequently, AA considers this a design shortcoming within the current procedures. Furthermore, in cases where beneficiaries have applied multiple times for investments in renewable energy sources, this verification has not been conducted.

As regards Measure 7, in Article 45 of the Decree and section 8.3.6.12 of the IPARD III Programme, it is stated that in the case of investment in renewable energy, the investment is considered eligible when the (theoretical) power capacity of the renewable energy plant ('the investment') exceeds the 3 years-average 'self-consumption. Auditors noted that this criterion is not well presented in the questions no 8 of the DP-UPAP-00-08 Completeness and Eligibility check list for M 7, sub measure 7.1. and no 13 of the DP-UPAP-00-09 Completeness and Eligibility check list M 7submeasure 7.2. Namely, in mentioned checklists the investment is considered eligible then the planned production of energy does not exceed 120% of 3 years-average consumption.

Recommendation:

For Measures 1 and 3, AA recommends:

- IA should include in the completeness and eligibility checklists a specific question addressing recipients who have previously invested in renewable energy sources,
- Establish a clear calculation method for determining own consumption in cases where the beneficiary has existing production capacity.
- MA should clearly define whether investments through IPARD refers to IPARD II and IPARD III, i.e. whether investments in renewable energy through IPARD II shall be taken into consideration while calculating self-consumption for projects under IPARD III or not.

In case MA confirms that it should, for all recipients who received solar panels under IPARD II, IA should perform a recalculation of the three-year average consumption for projects under IPARD III, by deducting the production generated from the previously installed panels, since investments in renewable energy are considered eligible only when the energy capacity of the installation does not exceed 120% of the three-year average consumption of the holding.

- For Measure 7, AA recommends the IA to align the control checklists with the requirements from the Decree and IPARD III Programme.

Auditee's response:

IPARD Agency

The methodology used to calculate the maximum acceptable capacity of solar installations includes the portion related to existing capacities, and these are taken into account during the calculation.

When calculating the maximum acceptable capacity, the average consumption from the three years preceding the Public Call is taken into consideration (or the year in which the connection to the farm was established—typically for companies founded one or two years before the announcement of the Public Call). The document used to verify past consumption is the "Consumer Energy Card" issued by the Electric Power Company of Montenegro (EPCG).

The value of the document titled Recapitulation of Consumption by Years, or "AKT Consumption" (as a cumulative sum of the subsections "High Tariff Consumption – VT" and "Low Tariff Consumption – MT,"

where VT and MT represent higher and lower tariff consumption), is entered into a purpose-designed Excel document which automatically processes the data. In the next step, this value is multiplied by a coefficient of 1.2 in order to obtain 120% of the average three-year consumption.

In cases where a company/farm has multiple meters, all values are taken into account and summed cumulatively.

The next step is entering the projected capacities of photovoltaic panels, which are part of the investment for which IPARD support is requested, followed by comparing these values with 120% of the average three-year consumption and the existing or planned installed capacities.

In cases where beneficiaries submit requests for new buildings—which is common in practice—at the time of submission there are no consumption records for the facility, nor does past consumption exist. In such cases, IA consults the competent institution (in this case CEDIS – the Montenegrin electricity distribution system), and in the absence of technical documentation, the valid document considered is their Connection Approval to the network.

The IA sent an official inquiry to CEDIS asking whether users can obtain a document from the competent institution that would reflect consumption and production of electricity generated solely from solar energy (for those who already have solar installations). However, no response has been received to date. Once the IA receives this information from CEDIS—or in accordance with the response—it will take appropriate steps to improve procedures in this segment.

Additionally, when it comes to renewable energy criteria, it will be more clearly defined through amendments of the IPARD III programme. Afterwards, IA will prescribe relevant procedures to ensure alignment with modifications of the programme, and submit it to NAO assessment and approval.

IPARD MA

- IPARD III clearly stipulates that in the case of M1 in case the user repeatedly invests in renewable energy sources, the IPARD Agency/Directorate for payments is obliged to take into account the existing energy production on the farm when assessing the level of self-consumption, while for M3 it is indicated that if this investment is previously supported through IPARD, the production of these plants is included in the calculation of energy production / consumption. This clearly indicates that IPARD Agency has to consider the previous investments in renewable energy through IPARD support (IPARD II and IPARD III programme).

Conclusion by the AA:

Following the MA reply, AA determines that investments in renewable energy through IPARD II shall be taken into consideration while calculating self-consumption for projects under IPARD III.

Therefore, for all recipients who received solar panels under IPARD II, IA should perform a recalculation of the three-year average consumption for projects under IPARD III, by deducting the production generated from the previously installed panels.

The implementation of the recommendations will be further monitored.

Quantification of the financial impact: N/A

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

February 2026:

IPARD MA

IPARD MA initiated the amendment process of the IPARD III programme during December 2025. During these amendments of the programme it will be specified that the mention period refers to the period of financing of IPARD II and IPARD III programme.

IPARD Agency:

Through Measure 7.1 and Measure 3, we carried out the procurement of solar panels for new facilities for which the project documentation provided for solar systems, and these are new facilities. The Agency had a case under IPARD II where a beneficiary applied for solar installations under two separate calls. In this case, the control was carried out taking into account the combined capacity of both solar systems, and the Agency acted accordingly. However, this approach was not formally incorporated into the methodology. The identified amendments have been incorporated into the Programme, which is in the process of adoption. In line with these amendments, this element of control will be included in the methodology.

AA follow up status: Open.

The implementation of the recommendation will be further monitored.

Level of importance: <i>Minor</i>	Body and area concerned: <i>IPARD Agency</i>
Finding number and title: 10. Delay in recording contracts in accounting software	
AC 1. Adequate supervision procedures Components of ancillary control No 1 <i>a) ensure adequate supervision for authorising, paying or accounting sums (Annex B, section III (10.2 and 10.3) FPPA)</i>	
Description of the finding: ICF (3) CONTROL ACTIVITIES <i>12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.</i> <i>Characteristics:</i> <i>12.1. Appropriate control procedures ensure that objectives are achieved. The control procedures assign responsibility for control activities to the entity or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.</i> <i>According to the Manual of procedures of IPARD Agency/Directorate for Payments, v.1.2, Part II Division for accounting and execution of payments, Manual for work in the unit for accounting and budget (further in text MoP), Section 5.1.2 Source document: "All source documents are recorded for the period they refer to. Clear audit trail should be ensured. In accordance with national legislation, the UAB is responsible for recording documents within 5 working days from the day of receiving the document". However, during system audit and compliance testing as well, certain delays are noticed in book-keeping of the contracts. It is determined an average delay of approximately 17 days from the date of receipt of the contract to its entry into the software.</i>	

<p>Recommendation:</p> <p>The AA recommends timely recording of contracts in order to improve the efficiency of the process.</p>
<p>Auditee's response: IPARD Agency</p> <p>The IPARD Agency will henceforth pay particular attention to complying with the statutory deadlines for contract bookkeeping, in order to ensure timely processing and to prevent similar delays from occurring.</p>
<p>Conclusion by the AA:</p> <p>The implementation of the recommendation will be further monitored.</p>
<p>Quantification of the financial impact: N/A</p>
<p>Actions taken by the auditee to mitigate the risk that the error is repeated in the future: N/A</p> <p>AA follow up status: <u>Open</u>.</p> <p>The implementation of the recommendation will be further monitored.</p>

<p>Level of importance: <i>Minor</i></p>	<p>Body and area concerned: <i>IPARD Agency</i></p>
<p>Finding number and title: 11. Inconsistencies in the procedures</p>	
<p>KAC 2. Appropriate checks to ensure that investment/project/application fulfils all eligibility criteria as laid down in the regulatory framework and the eligibility criteria as laid down in the IPARD III programme (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a) 19 and 35 SA)</p> <p>KAC 9. Adequate verification of all payment requests (Article 11(3) SA)</p>	
<p>Description of the finding: ICF (3) CONTROL ACTIVITIES</p> <p>12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.</p> <p>Characteristics:</p> <p>12.1. Appropriate control procedures ensure that objectives are achieved. The control procedures assign responsibility for control activities to the entity or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.</p> <p>During the system audit in regard to procedures, several inconsistencies were identified as follows:</p> <ul style="list-style-type: none"> Manual for work in the department for authorization of IPARD payments UAP (further in text MoP UAP) prescribes that: "If it is determinates that recipient doesn't meet the conditions and is not eligible for payment in advance, advisor will prepare decision DP-UAP-00-05 Decision for 	

<p><i>rejection described in paragraph the point 5.2.2, B) paragraph 4)</i>". However, above-mentioned Annex is listed in the List of Annexes used by UAP, but not included in the folder. Also, it is defined in the <i>point 5.2.1.2 Invocation of bank guarantee B) paragraph 3)</i> not in the above specified point;</p> <ul style="list-style-type: none"> MoP DOSC Point 6.6. Procedure of additional on-the-spot-verifications formulate: <i>"In case of hidden works according to the Contract, recipient is obliged to inform UPAP at least one week prior starting the realization of the activities involving hidden works"</i>, although Annex DP-UPAP-00-22 Contract for funds does not specify when is recipient obliged to inform DP, only that <i>"the Recipient is obliged to inform by letter or telephone or mail the Directorate for the timeframe for performing the hidden works during mounting of equipment which cannot be controlled during on-the-spot control before payment"</i>. Further, during documentation review through compliance testing, the non-compliance of the contracts for allocation of funds (no: 09-908/24-22084/24, 09-908/24-5927/22, 09-908/24-20010/28, 09-908/24-11077/17, 09-908/24-5939/11) with prescribed Annex DP-UPAP-00-22 Contract for funds was identified. Namely, the Article 8, Point 13 of above-mentioned contracts which refers to hidden works, states obligation of recipient to notify the Directorate in writing, by telephone or by e-mail about time-frame for the performance of hidden works during the installation of equipment which cannot be controlled during the on-site control before payment, at the latest three days before the start of the hidden works.
<p>Recommendation:</p> <p>The AA recommends:</p> <ul style="list-style-type: none"> - Adding Annex DP-UAP-00-05 <i>Decision for rejection of the Payment request</i> in folder and correction of number of subchapters in specified text; - Add to Article 8 of the Contract for funds (Annex DP-UPAP-00-22), point 11. when is recipient obliged to inform DP for the timeframe for performing the hidden works in accordance with procedure and to use valid version of Annex DP-UPAP-00-22 in the future.
<p>Auditee's response: IPARD Agency</p> <ul style="list-style-type: none"> • The necessary amendments have already been incorporated into the draft of the new IPARD Agency procedures, which will be formally adopted following review by NAOSO and any subsequent adjustments or revisions.
<p>Conclusion by the AA:</p> <p>The implementation of the recommendation will be further monitored.</p>
<p>Quantification of the financial impact: N/A</p>
<p>Actions taken by the auditee to mitigate the risk that the error is repeated in the future:</p> <p>N/A</p> <p>AA follow up status: <u>Open</u>.</p> <p>The implementation of the recommendation will be further monitored.</p>

In addition to the aforementioned, the following findings also concern the Validation and authorisation – administrative controls in the IPARD Agency:

- Deficiencies identified in the process of determining deadweight (finding is presented in section 5.8.1)
- Deficiency regarding general costs assessment (finding is presented in section 5.8.1)
- Deficiencies in IA's working documents (finding is presented in section 5.8.1)
- Lack of request for a delivery note (finding is presented in section 5.8.1).

Assessment:

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

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

Finding:

- **Deficiencies in IA's working documents (finding is presented in section 5.8.1)**

Assessment:

*The AA concluded that 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 criterion 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 risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this criterion as **"Works well"** with the score 3.70.*

- **Accounting**

Findings:

- **Delay in recording contracts in accounting software (finding presented in Validation and authorisation – administrative controls)**

Assessment:

*Considering described minor finding, the AA concluded that risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this criterion as **"Works well"** with the score 3.75.*

- **Advances and securities**

Findings:

There were no findings.

Assessment:

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

- **Debts management**

Findings:

There were no findings.

Assessment:

For IPARD III programme there were no irregularities and debts identified. The Debtors ledger for FY 2025 was prepared following the Annex 2 to the Guideline No 5.

*However, considering the common management and control system for IPARD II and IPARD III, and the obligation of the IA/AB to follow and report on debt management after the closure of the IPARD II programme, this assessment includes results of assessment for the IPARD II as well. **In point 7.3 (Status of debts for IPARD II), AA explained an incorrect calculation of interest reported in the DL for IPARD II.** Further, in the assessment, the AA took into consideration the status of implementation of findings issued in previous period related to debt management.*

*Therefore, AA concluded that risks are addressed to some extent by controls which may not always operate as intended and consequently the AA assessed this criterion as **"Works partially" with the score 2.00.***

- **Internal audit**

Findings:

There were no findings.

Assessment:

*Based on follow up activities, 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 criterion as **"Works" with the score 3.00.***

Other findings for IA regarding compliance with the requirements of the internal control component Information and communication are:

<p>Level of importance: Major</p>	<p>Body and area concerned: Managing Authority / IPARD Agency</p>
<p>Finding number and title: 2. Deficiencies in announcing of Public calls</p>	
<p>KAC 1. Appropriate checks to ensure that the applicant fulfils all eligibility criteria of the measure (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a), 19 and 43 of the Sectoral Agreement (SA))</p>	
<p>KAC 2. Appropriate checks to ensure that investment/project/application fulfils all eligibility criteria as laid down in the regulatory framework and the eligibility criteria as laid down in the IPARD III programme (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a) 19 and 35 SA)</p>	
<p>KAC 9. Adequate verification of all payment requests (Article 11(3) SA)</p>	
<p>Description of the finding:</p> <p>ICF(4) INFORMATION AND COMMUNICATION</p> <p>15. <i>The organisation communicates with external parties about matters affecting the functioning of internal control.</i></p> <p><i>Characteristics:</i></p> <p>15.1. <i>External communication. All entities ensure that their external communication is consistent and relevant to the audience being targeted. The organisation establishes clear responsibilities to align entities' communication activities with the organisation's priorities and narrative.</i></p> <p>According to SA, Annex 8, point 3.1, the IPARD Managing Authority/IPARD Agency shall ensure that potential recipients have access to the relevant information, including updated information where necessary, and taking into account the accessibility of electronic or other communication services for certain potential recipients, on at least the following:</p> <p>a) the funding opportunities and the launching of application calls.</p> <p>During system audit, AA auditors have identified following shortcomings and deficiencies regarding announcement of public calls under IPARD III Programme:</p> <ul style="list-style-type: none"> • AA auditors identified subsequent updating and/or attaching supporting documents to the public calls without official notification on amendment. For example, for Measure 3, out of 20 supporting documents to the public call, 5 were changed and/ or added subsequently. • AA noted that supporting documents that were published with public calls do not include information on all relevant documentation to be submitted by potential applicants. For example, <i>List of necessary documentation with the Payment Request</i> that was published with the First public call for Measure 1 does not include submission of a Contract signed between the recipient and the supplier, although verification of this document is foreseen under IPARD Agency's procedures, namely through "DP-UAP-00-07-1 Checklist for completeness and compliance for M1". • The AA noted that public calls were firstly published on the official IPARD website by the MA, then on the official website of the Ministry of Agriculture, Forestry and Water Management (hereinafter: MAFWM). The AA auditors identified discrepancies between the supporting documents attached to the First Public Call for Measure 1 and the First Public Call for Measure 3 on the MAFWM website compared with those published on the official IPARD website. 	

Specifically, regarding Measure 1, the *List of necessary documentation with the Payment Request* that was published on the IPARD website includes submission of a *List of animals on the agricultural holding*, whereas the *List of necessary documentation with the Payment Request* published on the MAFWM website does not foresee submission of this document.

Regarding Measure 3, the *List of necessary documentation with the Payment Request* published on the IPARD website prescribes submission of a *Contract signed between the recipient and the supplier*, while the same document on the MAFWM website does not foresee submission of such a Contract.

Additionally, AA noted that supporting document *Request for project changes* was subsequently added to the packages of public calls for measures 7.1, 7.2 and 3 on the IPARD website, but it hasn't been added on the MAFWM's website.

Taking into account the above-mentioned, the AA considers that applicants may be insufficiently informed if documents supporting public calls are subsequently amended without proper official notification. Furthermore, applicants may be misled due to inadequate or incomplete information, as well as inconsistent requirements within the same public call accessible through both, the IPARD website and the MAFWM website, which may result in jeopardizing the eligibility of their projects.

Recommendation:

The AA recommends following:

- Amendmends of the documents supporting public call should be officially announced in a transparent manner, ensuring that all interested parties are duly informed of the changes and their scope.
- The public call should contain all documents relevant for the eligibility of the applicant and/or investment, which will be subject to verification during the assessment of eligibility.
- If public calls are to be published on both the IPARD website and the MAFWM website, the MAFWM website shall provide only information on the announcement of the public call with a direct link to the official IPARD website, in order to avoid discrepancies between versions, particularly when there are subsequent amendmends. Additionally, it should be clearly defined who is responsible for publishing the public calls and supporting documents on the official IPARD website.

Auditee's response:

NAO: No direct responsibility of the NAO related to the content of the finding and recommendation. Please to remove NAO as the responsible authority concerning specific conduct reflected within finding itself.

IPARD MA

A part of recommendation is already implemented. Link from IPARD website with Public call and documents is on the MAFWM website - <https://www.gov.me/clanak/prvi-javni-poziv-za-dodjelu-sredstava-finansijske-podrske-za-mjeru-1-investicije-u-fizicki-kapital-poljoprivrednih-gazdinstava-2>.

The IPARD MA procedure will be changed in the next period. In the 4.1. MoP for TA and PUBLIC RELATIONS of IPARD MA, in the section II.5. ANNOUNCING PUBLIC CALL, on page 37 after the sentence "IPARD Agency is responsible for announcing the public call." the second part of the sentence and one paragraph in order to clearly defined who is responsible for publishing the public calls and supporting documents on the official IPARD website will be added: *IPARD Agency is responsible for announcing the public call and its publication in the Official Gazette, MA – DTAPR is responsible for posting public call and accompanying documentation on the official IPARD web site. The IPARD Agency shall, in due time, deliver via e-mail the official version of the public call together with the accompanying documentation to the DTAPR, which is responsible for managing the IPARD website. The Division will then provide the link to the public call and documentation, and sent it to the PR office of MAFWM which will be published on the its official website. Any subsequent amendment*

of the public call and accompanying documentation by the IPARD Agency must be officially submitted to the DTAPR, together with a justification, so that the DTAPR can prepare an announcement and duly inform the wider public of the changes."

NAO

IPARD MA have not yet officially submitted to NAO proposal for changing/amending MoP in regard to announcement and publishing public calls. As soon as this proposal is submitted, it will be analysed and assessed by MS before official approval by the NAO.

Conclusion by the AA:

- AA concurs with the observation that the NAO does not bear direct responsibility for the identified deficiency; however, in view of the significance of this matter, it was considered necessary that the NAO ensures appropriate oversight of the follow-up and implementation of the related recommendations, as it concerns key information for potential applicants and the general public.
- The AA notes that in the MAFWM website information on the announcement of the public call has been updated and it provides a direct link to the official IPARD website. However, this part of the finding also remains open in order to monitor the future publication of Public Calls.

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: N/A

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

February 2026:

IPARD MA:

The amendment of the MoP for TA and Public Relations of IPARD MA is in process, where the publication of Public Calls will be detailly described.

MS:

Upon official submission of the amendment of the procedures of the MoP for TA and Public Relations of IPARD MA, Management Structure will perform analysis before official adoption by NAO, to ensure that AA recommendations are respected.

AA follow up status: Open.

The implementation of the recommendation will be further monitored.

<p>Level of importance: <i>Intermediate</i></p>	<p>Body and area concerned: <i>Managing Authority / IPARD Agency</i></p>
<p>Finding number and title: 7. Insufficient information regarding "deadweight" and Maximum amount per measure and per programme</p>	
<p>KAC 1. Appropriate checks to ensure that the applicant fulfils all eligibility criteria of the measure (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a), 19 and 43 of the Sectoral Agreement (SA))</p>	
<p>Description of the finding: ICF (4) INFORMATION AND COMMUNICATION</p>	

15. The organisation communicates with external parties about matters affecting the functioning of internal control.

Characteristics:

15.1. External communication. All entities ensure that their external communication is consistent and relevant to the audience being targeted. The organisation establishes clear responsibilities to align entities' communication activities with the organisation's priorities and narrative.

The IPARD III Programme stipulates that one of the requirements applicable to all or several measures is the principle of deadweight, meaning that beneficiaries should be excluded from receiving subsidies for projects that would have been implemented even without public support.

In line with this requirement, the IPARD Agency introduced a tailored procedure — a project evaluation model — aimed at reducing the risk of deadweight in supported projects. However, the AA has found that neither the IPARD Decree nor the published calls for submission of applications for support under any of the measures included information indicating that the IA would carry out procedures to assess the applicant's capacity to finance the investment independently.

Additionally, in section 8.1 Requirements concerning all or several measures of the IPARD III Programme, the withdrawal limit applicable to all measures is defined as follows: "Within the IPARD III Programme, the recipient is not limited by the number of supported projects, but can receive a total maximum of EUR 3,000,000.00 of public support under all measures, collectively for the programming period of the IPARD II and IPARD III Programmes."

In addition, withdrawal limits for Measures 1, 3, and 7 are also defined, cumulatively for the IPARD II and IPARD III programming periods.

The Audit Authority has observed that the IPARD Decree includes information on withdrawal limits under Article 69; however, the published public calls do not contain any information indicating the existence of these limits. Specifically, the public calls state the amount of non-refundable support (e.g. from EUR 30,000 to EUR 2,000,000 for Measure 3) without indicating that the actual amount is subject to the conditions set out in Article 69 of the IPARD Decree.

Recommendation:

- Given the possibility that applicants may be rejected if the project evaluation for reducing the risk of deadweight indicates that they are capable of self-financing the investment, the Audit Authority recommends that such information be clearly communicated to potential applicants in the Decree and future public calls. This would help avoid potential complaints related to lack of information from the competent institutions.
- Considering that the amount of support is subject to both the overall withdrawal limit and the measure-specific limits, the Audit Authority recommends that future public calls include a reference to the provisions of Article 69 of the IPARD Decree. This would ensure transparency and help inform potential applicants of the applicable funding limits.

Auditee's response:

IPARD Agency

The recommendation has been accepted.

The IA recognizes the shortcomings identified by the AA concerning the principle of deadweight. Through the amendments to the Regulation on the implementation of measures, this

concept has now been clearly defined. It has also been explicitly stated that the existence of deadweight may constitute grounds for rejecting an application for support/payment. In this way, the legal framework for the application of this criterion has been fully harmonized.

Furthermore, the findings related to limitations on the allocation of funds have been clearly defined through the amendments to the Regulation.

Additionally, the IA will ensure that all future Public Calls are aligned with the Regulation and will contain precise information on the criterion relating to deadweight, as well as on the limitations concerning the allocation of funds, in order to ensure that all potential beneficiaries are properly and timely informed of the eligibility requirements.

For the ongoing calls, in accordance with the procedure, verification of deadweight is being carried out, and any beneficiary for whom deadweight is established will not be granted support.

Moreover, through DP-UPAP-00-12 Register of the Applicants, the IA verifies the amount of funds each beneficiary has received under IPARD II and IPARD III, thereby ensuring that beneficiaries do not exceed the established financial ceilings related to the support measures.

IPARD MA

In the current Proposal for the Decree of Amendments to the Decree on the Implementation of the Procedure of Using Funds from the Instruments for Pre-Accession Assistance of the European Union (IPARD III program), the MA proposed an amendment, which introduces the definition of "deadweight" which reads: "deadweight is a case that occurs when it is determined that the recipient can implement the investment in question even without financial support through the IPARD III program", while also making a connection in each of the measures with the term "deadweight" as well as the method of its verification for legal and natural persons. When publishing subsequent Public Calls, restrictions in the form of deadweight will be clearly stated in the text of the call.

Conclusion by the AA:

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: N/A

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

February 2026:

IPARD MA:

Decree of Amendments to the Decree on the Implementation of the Procedure of Using Funds from the Instruments for Pre-Accession Assistance of the European Union (IPARD III program) was adopted and published in the Official Gazette no. 163/2025, with the definition of "deadweight". Decree is available at the following link: <https://www.sluzbenilist.me/propisi/6123A798-B159-4D22-BD61-7C69FADE567C>.

AA follow up status: Partially closed

Amendment to Government Decree on the implementation and procedures for use of Funds from the Instrument for Pre-Accession Assistance (IPARD III Programme) was adopted and published in the Official Gazette no. 163/2025, with the definition of "deadweight". However, AA will monitor launching public calls in order to confirm correct communication to potential applicants.

In addition to the aforementioned, the following findings also concern requirements of the internal control component Information and communication - IPARD Agency:

- Lack of a definition of a “mountain area” (finding presented in Validation and authorisation – administrative controls).

➤ **Assessment for the NAOSO**

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

Findings:

- Non-compliance of Annual Management Declaration with FPPA template (finding is presented in section 7.3)

Assessment:

Based on audit work, the AA concluded that 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 criterion as “Works” with the score 3.00.

➤ **Assessment for the AB**

- Managing functions – Management of IPA III accounts and financial operations

Findings:

- Deficiencies in content of annual financial reports (finding is presented in section 6.3)

Assessment:

The AA concluded that 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 criterion as “Works” with the score 3.14.

- Paying functions – Authorisation and control of payments

Findings:

There were no findings.

Assessment:

The AA concluded that risks are adequately addressed by controls which are likely to operate effectively and consequently the AA assessed this criterion as “Works well” with the score 3.57.

- Paying functions – Accounting for commitment and payment

Findings:

There were no findings.

Assessment:

The AA concluded that risks are adequately addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently AA assessed this criterion as **“Works” with the score 3.28.**

- **Paying functions – Debt management**

Findings:

There were no findings.

Assessment:

For IPARD III programme there were no irregularities and debts identified. The Debtors ledger for FY 2025 was prepared following the Annex 2 to the Guideline No 5.

However, considering the common management and control system for IPARD II and IPARD III, and the obligation of the IA/AB to follow and report on debt management after the closure of the IPARD II programme, this assessment includes results of assessment for the IPARD II as well. **In point 7.3 (Status of debts for IPARD II), AA explained an incorrect calculation of interest reported in the DL for IPARD II.** Further, in the assessment, the AA took into consideration the status of implementation of findings issued in previous period related to debt management.

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

- **Paying functions – Treasury**

Findings:

- **Deficiencies in content of annual financial reports (finding is presented in section 6.3)**

Assessment:

Considering finding described in the section 6.3 of this report, the AA concluded that risks are adequately addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently AA assessed this criterion as **“Works” with score 3.42.**

➤ **Assessment for the Managing Authority**

- **Managing functions**

Findings:

- **Deficiencies in announcing of Public calls (finding presented in Validation and authorisation – administrative controls for IA)**

Assessment:

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

- **Implementing functions**

Findings:

<p>Level of importance: <i>Intermediate</i></p>	<p>Body and area concerned: <i>Managing Authority</i></p>
<p>Finding number and title: 5. Ambiguous criteria regarding eligible sectors under Sub-measure 7.2</p>	
<p>KAC 1. Appropriate checks to ensure that the applicant fulfils all eligibility criteria of the measure (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a), 19 and 43 of the Sectoral Agreement (SA))</p>	
<p>Description of the finding:</p> <p>ICF (4) INFORMATION AND COMMUNICATION</p> <p>15. <i>The organisation communicates with external parties about matters affecting the functioning of internal control.</i></p> <p><i>Characteristics:</i></p> <p>15.1. <i>External communication. All entities ensure that their external communication is consistent and relevant to the audience being targeted. The organisation establishes clear responsibilities to align entities' communication activities with the organisation's priorities and narrative.</i></p> <p>In Part 8.3.6.11 of Version 1.1 of the IPARD III Programme, under which the first public call for Sub-measure 7.2 – <i>Support for Investments in On-Farm Processing</i> – was published, the eligible sectors for processing of primary agricultural products are defined as follows:</p> <ul style="list-style-type: none"> • Milk processing sector • Crop production sector: fruits, vegetables, cereals, spices, and medicinal herbs (cultivated and wild), and mushroom growing • Wine production sector • Olive processing sector • Fisheries and aquaculture sector <p>Further in the Programme, it is stated that the sectors for the production of primary products are defined in accordance with the Law on Food Safety and the relevant Regulation on Hygiene Requirements for Facilities and Premises Where Small Quantities of Primary Products for Human Nutrition Are Produced. However, this Regulation defines what constitutes <i>small quantities of primary products</i> and includes the total quantity limits for eggs, raw milk, fruit, vegetables, and cereals, as well as for <i>processed products</i> derived from fruit, vegetables, and cereals.</p>	

Therefore, the published call for Sub-measure 7.2 included the **Fisheries and Aquaculture** sector and the **Mushroom Growing** sector, although these sectors are not recognized in the Regulation that provides the legal framework for this sub-measure.

Through the audit, we established that among the applicants:

- One application was submitted for the Fisheries and Aquaculture sector – it was rejected based on another legal ground;
- One application was submitted for the Mushroom Growing sector – it was also rejected on a different legal ground;

Therefore, the audit concluded that the inconsistency between the Programme and the public call on one hand, and the Regulation as a by-law on the other, did **not result in any financial impact**.

Additionally, by analysing the current Version 1.2 of the Programme, we identified that **Point 8.3.6.11 – Specific Eligibility Criteria** – was amended. According to the new version, the eligible sectors within this sub-measure are the following sectors for the processing of primary agricultural products:

- Milk processing sector
- Meat sector
- Plant production sector: fruits, vegetables, cereals, medicinal and aromatic herbs (cultivated and wild), and mushroom growing
- Wine production sector
- Olive processing sector
- Fisheries and aquaculture sector
- Sector for processing of other products of non-animal origin

Further in the Programme, it is stated that the sectors for production are in accordance with the valid **Law on food safety** and relevant by-laws regulating hygiene requirements for facilities and premises where small quantities of primary products for human consumption are produced, as well as the conditions for derogation in terms of construction, layout, and equipment of facilities with low-volume production, food processing, and processing activities.

Our analysis of these two by-laws referred to in the Programme revealed that the definitions of “small quantities” differ significantly and are even mutually exclusive. For example:

- According to the **Regulation on Hygiene Requirements for Facilities and Premises Where Small Quantities of Primary Products for Human Nutrition Are Produced**, the maximum small-scale production quantity is defined as *350 eggs per week (cca. 18.200 per year)* for the egg sector or *100 kg of grapes per week (cca. 5.200 per year)* for the grape sector.
- In contrast, according to the **Regulation on Conditions for Derogation in Terms of Construction, Layout and Equipment of Facilities with Low-volume Production, Food Processing and Processing**, the thresholds are significantly higher – for example, *up to 1,500,000 eggs per year* for egg packaging facilities, or *up to 10,000 kg of grapes per year* for wine production.

Recommendation:

Since no financial corrections have arisen as a result of first public which was implemented based on Version 1.1 of the Programme and, and given that no calls have yet been published under Version

1.2, the **Audit Authority recommends amending the IPARD III Programme** in order to harmonize the definitions of eligible sectors and thresholds for “small quantities” under Sub-measure 7.2. We further recommend acting with due diligence going forward to prevent similar situations that could lead to financial corrections.

Auditee's response:

IPARD MA

MA will in the next amendment of the IPARD III programme, in cooperation with the Food Safety, Veterinary and Phytosanitary Administration, make a clear distinction between the eligible sectors for support, the volume of production and the legal framework, in order to make clear eligibility criteria for the future recipients.

Conclusion by the AA:

The implementation of the recommendation will be further monitored.

Quantification of the financial impact: N/A

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

February 2026:

IPARD MA:

IPARD MA initiated the amendment process of the IPARD III programme during December 2025. Taking into account that the alignment of legislation concerning the processing of small quantities of primary agricultural products, which falls under the competence of the Food Safety, Veterinary and Phytosanitary Administration, is currently ongoing, the IPARD Managing Authority will, in cooperation with this authority, adjust the sectors eligible for support and clearly define the scale of production that will be considered eligible for support.

AA follow up status: Open.

The implementation of the recommendation will be further monitored.

Level of importance:

Minor

Body and area concerned:

Managing Authority

Finding number and title: 12. Omissions in document drafting

KAC: N/A

Description of the finding:

ICF (4) INFORMATION AND COMMUNICATION

15. The organisation communicates with external parties about matters affecting the functioning of internal control.

Characteristics:

15.1. External communication. All entities ensure that their external communication is consistent and relevant to the audience being targeted. The organisation establishes clear responsibilities to align entities' communication activities with the organisation's priorities and narrative.

In accordance with Manual of procedure for technical assistance and public relations (hereinafter: MoP) is emphasized the goal of reaching: “*the target audience in right time with the right message to create the desired perceptions, i.e. to inform potential recipients and recipients of support, general*”

public, local authorities (municipalities), professional organisations, economic and social partners, bodies involved in promoting equality between men and women and relevant non-governmental organisations including environmental ones on the opportunities offered by the IPARD III programme”.

However, comparing the official version of the document **Plan of visibility and communication activities**, signed on January 24th 2025 with the version submitted to the members of the IPARD monitoring committee at the meeting held on 23th January 2025, several differences were identified in the amounts of the following items in the table below:

Ordinal number in the document	Activity	Official version	Approved by the IMC at the meeting
1.	Videos and advertising	Free of charge	5.000€
4.	Preparation of the technical specification for printing material for public campaign	3.500€	4.500€
5.	Preparation of newsletters	3.000€	4.000€
14.	Announcement/Launching public call for IPARD III	2.000€	2.500€
15.	Organizing the press conferences	700€	1.000€

As regards document **Realization of annual list of actions – 2024**, AA noted that the total sum is not correct. By summing individual items, AA calculated the total sum of all activities 2.440,00 EUR instead of 3.440,00 EUR as it is stated in the document.

Bearing in mind the above-mentioned and significance of the documents **Plan of visibility and communication activities** and **Realization of annual list of actions**, it is necessary to approach with due diligence in fulfilling these documents.

Recommendation:

The AA recommends MA preparing documents **Plan of visibility and communication activities – Annual list of actions** and **Realization of annual list of actions** with due diligence in upcoming period.

Auditee's response:

IPARD MA

The Managing Authority acknowledges the observations of the Audit Authority regarding inconsistencies and inaccuracies identified during the preparation of the Plan of Visibility and Communication Activities and the Realization of the Annual List of Actions.

The IPARD Managing Authority will ensure that:

- All future Plans of Visibility and Communication Activities, including the Annual List of Actions, are prepared with due diligence and accuracy prior to submission and approval.

<ul style="list-style-type: none"> • Budget items and planned activities are carefully reviewed and verified with relevant internal and external entities to prevent inconsistencies. • A clear record of all versions, changes, and communication with the Commission and other stakeholders is maintained to ensure transparency and traceability of decisions made during document preparation.
<p>Conclusion by the AA:</p> <p>The implementation of the recommendation will be further monitored.</p>
<p>Quantification of the financial impact: N/A</p>
<p>Actions taken by the auditee to mitigate the risk that the error is repeated in the future: N/A</p> <p>AA follow up status: <u>Open</u>.</p> <p>The implementation of the recommendation will be further monitored.</p>

*** In addition to the aforementioned, the following findings also concern the Managing Authority:**

- **Deficiencies in announcing of Public calls (finding presented in Other findings for IA)**
- **Lack of a definition of a “mountain area” (finding presented in Validation and authorisation – administrative controls for IA)**
- **Insufficient information regarding “deadweight” and Maximum amount per measure and per programme (finding presented in Other findings for IA).**

Assessment:

*Considering finding described, AA concluded that risks are adequately addressed by controls which are likely to operate effectively with some deficiencies having a moderate impact on the functioning of the key requirements and consequently AA assessed this criterion as “**Works**” with the score 2.66.*

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 system audit, the AA identified a deficiency which has been considered to be of a systemic nature. Finding has been presented in Point 4.4 (finding No.1 - *Inadequate verification of the eligibility criterion related to the lease agreement*). Namely, audit revealed a deficiency within the control system for verifying the eligibility criterion related to the lease agreement of facilities and/or parcels regarding applicants from measure 3. AA noted this deficiency in one case which was in the sample for compliance testing of contracted projects. Since AA also noted that the checklist for completeness and eligibility for Measure 3 does not include a clear question for verifying compliance with eligibility requirement related to lease facilities in case of equipping, in order to confirm whether the IA has checked for every applicant the possession of valid lease agreement, AA requested the IA to provide a list of all contracted applicants under Measure 3 to rule out the possibility of similar omissions. AA received 13 contracts and in 5 of them described deficiency was identified. Accordingly, AA considers this a deficiency of key control related to appropriate checks to ensure that the applicant fulfils all eligibility criteria of the support measure. AA conducted additional work to determine whether there are other measures that may be prone to the same

type of error. For Measure 7, investment in leased areas is not eligible, while for measure 1, no contracts have been signed yet.

AA recommended several measures to be conducted by the IA in order to prevent possible financial correction. Measures already taken are:

- For cases included in the finding, the lease agreements have been notarized;
- IA conducted on the spot checks in recipients' facilities in order to confirm the existence of the lease;
- notarized statements between the lessor and the lessee have been submitted, confirming the validity of the agreements from the moment of submission of the request for support;
- for one recipient, AA received an Annex to the Lease agreement which is in line with the requirements (timely notarised and with valid duration).

Based on above-taken measures, AA considers that existence of the lease from the moment of submitting the request of support have been confirmed. Therefore, AA did not propose any financial corrections.

Additionally, AA recommended:


- IA should update the procedures to include a clear verification step for the lease agreement requirement in cases where the investment involves the procurement of equipment for applications under Measure 3 by including clearly defined questions related to:
 - duration of the lease in relation to the date of submission of the application (at least 10 years),
 - certification of the lease agreement by competent authority.
- In the future work, the IA should ensure that compliance with all conditions applicable established by the agreements, or laid down in relevant national law or in the IPARD programme, can be checked according to a set of verifiable indicators. This is achieved by clearly stating in the public call that only lease agreements certified by competent authority are considered acceptable.
- IA and MA should clearly and unequivocally communicate with potential applicants this eligibility condition (lease duration + mandatory certification at the moment of submitting application), through guidelines for applicants and informative workshops to avoid misunderstandings and potential rejection of applications. Additionally, it should be emphasize that submission of a lease agreement is still necessary despite the fact that the facility owner and the company owner (applicant) are the same person.

Implementation of these recommendations will be monitored in the future audit work.

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

AAAR	Finding	Follow-up February 2026
<i>Error! Reference source not found.</i>		
<p>1.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.1</p>	<p>Non - Updated Decision on appointment of persons in indirect management of EU pre-accession funds</p> <p><i>ICF (1) Control environment</i></p> <p>3. <i>Management establishes structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives</i></p> <p>3.1. <i>Management Structures are comprehensive. The design and implementation of management and supervision structures cover all policies, programmes and activities. They cover all expenditure types, delivery mechanisms and entities in charge of budget implementation to support the achievement of policy, operational and control objectives.</i></p> <p>3.2. <i>Authorities and responsibilities. Senior managers, as appropriate, delegate authority and use appropriate processes and technology to assign responsibility and segregate duties as necessary at the various levels of the organisation.</i></p> <p>Level of priority: Major Body/-ies concerned by the finding: NAO/MS</p> <p>Decision on appointment of persons in indirect management of EU pre-accession funds was adopted by the Government of Montenegro on 4th April 2024. By analyzing content of the Decision, AA determined that it is not updated in accordance with re-organization of the Government of Montenegro, occurred in July 2024. After the reorganization, new appointments were made that are not presented in the existing Decision (new head of DMS – 11th July 2024, new head of NAOSO – 19th August 2024, vacant position of NIPAC – 23rd July 2024).</p> <p>AA recommends:</p>	<p>Closed</p> <p>Decision on the appointment of persons responsible for the implementation of indirect management of pre-accession funds (IPA) and the protection of the financial interests of the EU has been adopted on the Government session, held on July 31st , 2025.</p>

	<ul style="list-style-type: none"> Updating Decision on appointment of persons in indirect management of EU pre-accession funds in accordance with current organization of the Government of Montenegro. 	
<p>2.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.2</p>	<p>Absence of a management information system</p> <p><i>ICF (2) Risk assessment</i></p> <p>6. <i>The organisation specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.</i></p> <p>6.5. <i>Financial reporting objectives. Financial reporting objectives are consistent with the accounting principles required by the Commission.</i></p> <p>Level of priority: Major</p> <p>Body/ies concerned by the finding: NAO</p> <p>According to Article 58, point 3, of the FFPA, IPA III beneficiary shall set up a management information system to record and store, in electronic form, the data on each IPA III programme/action/operation necessary for planning, implementation, management, monitoring, evaluation, verifications and audits of IPA III assistance.</p> <p>During system audit for IPARD III Programme, the AA auditors noted that a management information system as a platform for the secure exchange and storage of documents across various IPA entities has not been put in place.</p> <p>The AA recommends:</p> <ul style="list-style-type: none"> The NAO should ensure that adequate management information system is put in place as soon as possible, in order to create a platform for secure transfer of documents, necessary for planning, implementation, management, monitoring, evaluation, verifications and audits in IPA III. 	<p>Open</p> <p>From the reply of MS, AA notes that tender for development of system has been launched, thus, signing of the contract and the start of system development are expected in the coming period.</p>

<p>3.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.3</p>	<p>Non-existence of an anti-fraud strategy</p> <p><i>ICF (2) Risk assessment</i></p> <p><i>8. The organisation considers the potential for fraud in assessing risks to the achievement of objectives.</i></p> <p><i>8.2 Anti-fraud strategy. The organisation as a whole and each entity set up and implement measures to counter fraud and any illegal activities affecting the financial interests of the EU. They do this by putting in place a sound anti-fraud strategy to improve the prevention, detection and conditions for investigating fraud, and to set out reparation and deterrence measures, with proportionate and dissuasive sanctions.</i></p> <p>Level of priority: Major</p> <p>Body/-ies concerned by the finding: NAO</p> <p>Developing on anti-fraud strategy is one of the Internal control framework requirements defined in the Annex B of the FFPA, ICF 2, point 8.2 Anti-fraud strategy. The aim is to set up and implement measures to counter fraud and any illegal activities affecting the financial interests of the EU. During system audit, the AA auditors identified that an anti-fraud strategy has not been developed yet as required in the Annex B of the FFPA.</p> <p>Recommendation:</p> <p>Even though according to the Decree for IPA III, it's the AFCOS Office responsibility to participate in the drafting, manage the implementation and report on the implementation of the national strategy for combating fraud and protecting financial interests of the EU, the AA recommends that the NAO, in line with it's role in the MCS of EU funds, intensify its efforts with the AFCOS Office in order to accelerate the preparation and adoption of the anti-fraud strategy in accordance with FFPA.</p>	<p>Closed</p> <p>National Antifraud Strategy is officially adopted on the Government session held on July 10th 2025.</p> <div style="text-align: center;">  <p>NAFCS 2025-2028.pdf</p> </div>
<p>4.</p> <p>Refer to System audit Final</p>	<p>Inadequately defined common eligibility criteria</p> <p><i>ICF (1) Control environment</i></p> <p><i>3. Management establishes structures, reporting lines, and appropriate authorities</i></p>	<p>Closed</p> <p>Adequate requirement for maximum amount for procurement of tractors has been presented in the</p>

<p>report (19/2/2025)</p> <p>4.1.4</p>	<p><i>and responsibilities in the pursuit of objectives.</i></p> <p><i>3.1. Management Structures are comprehensive. The design and implementation of management and supervision structures cover all policies, programmes and activities. They cover all expenditure types, delivery mechanisms and entities in charge of budget implementation to support the achievement of policy, operational and control objectives.</i></p> <p><i>6. The organisation specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.</i></p> <p><i>6.4. Objectives form the basis for committing resources. Management uses the objectives set as a basis for allocating available resources as needed to achieve policy, operational and financial performance goals.</i></p> <p><i>Level of priority: Major</i> <i>Body/-ies concerned by the finding:</i> <i>Managing Authority</i></p> <p>During system audit in the Managing Authority, the AA auditors identified inadequately defined requirement in the IPARD III Programme regarding common eligibility criteria for Measure “Investments in physical assets of agricultural holdings”, i.e. the maximum amount of funds provided for the procurement of tractors.</p> <p>Namely, in the chapter 8.3.1.6 Common eligibility criteria of the IPARD III Programme there is the following requirement: `Of the total amount of EU funds initially allocated for investments in fixed assets of agricultural holdings, a maximum of 20% of the funds can be spent on tractors`. This requirement is not in compliance with chapter 8.1.6.5 Other common eligibility criteria of IPARD II Programme which states: `Out of the total amount of allocated EU funds, for measure investments in physical assets of agriculture holdings, a maximum of 20% of the funds can be spent on tractors, assessed at a IPARD II + IPARD III scale`.</p> <p>This should be especially taken into account because the budget for tractors in the IPARD</p>	<p>version 1.3 of the IPARD III Programme as well as in the updated Decree for IPARD III Programme:</p> <p>1) https://www.gov.me/dokumenta/682cb676-0306-4b98-8cc9-0033d456fd9f</p> <p>2) https://www.sluzbenilist.me/propisi/5A51E224-9635-4794-A26E-6FFE9C99F714?page=4</p>
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	<p>III perspective should be determined based on the funds spent in the IPARD II perspective.</p> <p>Furthermore, Article 17 of Decree for IPARD III Programme also contains inadequate requirement as stated in IPARD III Programme, i.e. that the maximum amount for procurement of tractors can be 20% of initially allocated amount for Measure 1.</p> <p>Recommendation:</p> <p>Managing Authority should initiate amendment of the IPARD III Programme and update Decree for IPARD III Programme in order to include adequate requirement for maximum amount for procurement of tractors.</p>	
<p>5.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.5</p>	<p>Inadequately defined rule of origin</p> <p><i>ICF (1) Control environment</i></p> <p>3. <i>Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</i></p> <p>3.1. <i>Management Structures are comprehensive. The design and implementation of management and supervision structures cover all policies, programmes and activities. They cover all expenditure types, delivery mechanisms and entities in charge of budget implementation to support the achievement of policy, operational and control objectives.</i></p> <p><i>ICF (3) Control activities</i></p> <p>12. <i>The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.</i></p> <p>12.1. <i>Appropriate control procedures ensure that objectives are achieved.</i></p> <p>Level of priority: Major Body/-ies concerned by the finding: <i>Managing Authority and IPARD Agency</i></p> <p>Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15th September 2021 establishing the Instrument for Pre-Accession Assistance (IPA III), states the following in Article 11: Participation in</p>	<p>Partially Closed</p> <ul style="list-style-type: none"> - AA notes that Article 67 of the Decree for IPARD III has been amended regarding the rule of origin and is in line with Regulation (EU) 2021/1529, FFPA as well as IPARD III programme. <p>This part of the finding is considered as closed.</p> <ul style="list-style-type: none"> - As regards procedures, the IA prepared and the NAO approved an exemption to the procedures concerning the rule of origin as of 25/06/2024, which states that, instead of checking the origin of the items in the offers, the IA shall verify the origin of the suppliers. However, in the checklist it has remained that the origin of suppliers is checked only for amounts exceeding EUR 100,000. The IA is aware of this inconsistency; therefore, in the statements signed with recipients prior to contracting, it is stated that all suppliers must be from eligible countries, regardless of the value of the offer. <p>This part of finding is considered as partially closed.</p> <ul style="list-style-type: none"> - During audit work, AA noted that recipients, in the pre-contracting phase,

procurement, grant, and prize award procedures for actions financed under this Regulation shall be open to international and regional organizations and to all other natural persons who are nationals of, and to legal persons which are effectively established in: (a) *Member States, beneficiaries listed in Annex I to this Regulation, contracting parties to the Agreement on the European Economic Area, and countries covered by Annex I to Regulation (EU) 2021/947; and (b) countries for which reciprocal access to external assistance is established by the Commission`.*

Article 19 Rules on nationality and origin for procurements, grants and other award Procedures of the Financial Framework Partnership Agreement (FFPA) follows provisions of the mentioned Regulation. Further, in the IPARD III programme v.1.2 Section 8.1 *Requirements concerning all or several measures – part Rules of origin states: `Compared to IPARD II, the rule of origin does not apply anymore for supplies and materials under IPARD III. However, it remains as a verification of the entity signing the contracts`.* Meaning that the verification of the origin remains to be checked for entities in line with Article 11 of Regulation (EU) 2021/1529).

Analysing the Decree for IPARD III Program, **Article 67** *`For all goods and services listed in the offer, contract, and/or invoice, whose total amount of eligible costs is less than €100,000, they are eligible for support regardless of the countries of origin of the goods and services. For all goods and services listed in the offer, contract, and/or invoice, whose total amount of eligible costs is equal to or greater than €100,000, they are eligible for support if the supplier is from the countries listed in Annex 4 of this Decree`.* AA auditors noted that this Article is in collision with all above mentioned legal acts. Additionally, procedures of the IA regarding rule of origin are in line with the Decree for IPARD III and inconsistent with the Regulation (EU) 2021/1529, FFPA as well as IPARD III programme.

have signed statements where they declare that all suppliers will be from eligible countries.



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This part of finding is considered as **closed**.

	<p>Finally, it should be emphasized that for all 4 published public calls under IPARD III programme, the abovementioned Decree for IPARD III applies in which the rule of origin is incorrectly defined, thus misleading applicants since they are required to provide a declaration of country of origin or other relevant document only for suppliers whose offers exceed EUR 100,000.</p> <p>Recommendation:</p> <p>AA recommends:</p> <ul style="list-style-type: none"> - Aligning the Decree for IPARD III regarding rule of origin with Regulation (EU) 2021/1529, FPPA as well as IPARD III programme, - Updating the Manual of procedures with relevant checklists in accordance with the relevant requirements regarding rule of origin, and - Eliminating potential legal consequences that may arise or have already arisen from publishing the calls with inconsistent requirements. 	
<p>6.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.6</p>	<p>Insufficiently clearly defined procedure</p> <p><i>ICF (1) Control environment</i></p> <p><i>3. Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</i></p> <p><i>3.1. Management Structures are comprehensive. The design and implementation of management and supervision structures cover all policies, programmes and activities. They cover all expenditure types, delivery mechanisms and entities in charge of budget implementation to support the achievement of policy, operational and control objectives.</i></p> <p><i>ICF (3) Control activities</i></p> <p><i>12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.</i></p> <p><i>12.1. Appropriate control procedures ensure that objectives are achieved.</i></p>	<p>Open</p> <p>Finding is related to the published public calls as well as to the procedures of the IA. Since there were no public calls published after our finding, as well as the fact that new version of the Mop has not been adopted yet, AA considers this finding as opened and further implementation shall be monitored.</p>

Level of priority: Major
Body/-ies concerned by the finding:
Managing Authority and IPARD Agency

According to the selection criteria defined per measures 1, 3 and 7 in the IPARD III programme v.1.2, representative of recipient for legal entities is considered to be the executive director. However, analysing 4 public calls published under the IPARD III programme, AA auditors have noted that depending on the required eligibility criteria, the representative of recipient is, i.e. the documents to be submitted are required for:

- executive director and authorized person,
- executive director and/or authorized person,
- executive director or authorized person,
- executive director,
- authorized person.

Additional observation during the audit is that for Measure 7.1, the IPARD III program requires that the recipient, before the final payment of support funds, in regards to the occupational skills must comply with the relevant Law on tourism and hospitality (by registering a complementary facility and entering it in the tourist register). However, according to the national Law on tourism and hospitality, this condition on occupational skills is required for the *manager of the facility*, who does not have to be the executive director or the authorized person of the legal entity, while in the List of documents published with the public call for Measure 7.1 under IPARD III, it is requested a *diploma from the authorized representative (executive director) of the completed of the IV level of the national qualification`s framework*.

Therefore, AA determined that it is not clearly defined who is considered to be a representative of recipient in the case when legal entity applies, especially since the authorized person, executive director and/or manager of the facility from whom different

	<p>documents are requested, do not have to be the same person.</p> <p>Accordingly, since there is room for a broader interpretation of the definition, it may create inequalities in processing applications and lead to unequal treatment of recipients.</p> <p>Recommendation:</p> <p>AA recommends:</p> <ul style="list-style-type: none"> - IA and MA to harmonise procedures, checklists as well as lists of documents to be published with public calls with IPARD III programme regarding person whose documents should be requested in order to determine the eligibility of the recipient in case the applicant is a legal entity. 	
<p>7.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.7</p>	<p>Discrepancy within IPARD III programme as well as between the IPARD III Programme and Decree for IPARD III</p> <p><i>ICF (1) Control environment</i></p> <p><i>3. Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</i></p> <p><i>3.1. Management Structures are comprehensive. The design and implementation of management and supervision structures cover all policies, programmes and activities. They cover all expenditure types, delivery mechanisms and entities in charge of budget implementation to support the achievement of policy, operational and control objectives.</i></p> <p><i>ICF (3) Control activities</i></p> <p><i>12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.</i></p> <p><i>12.1. Appropriate control procedures ensure that objectives are achieved.</i></p> <p>Level of priority: Major Body/-ies concerned by the finding: Managing Authority and IPARD Agency</p> <p>By the Letter Ref.Ares (2024)5294238 from 22/7/2024 European Commission approved modification of the IPARD III Programme and</p>	<p>Closed</p> <p>In the updated version 1.3 of the IPARD III Programme these criteria for measure 7.2 has been harmonised (parts 8.3.6.7 and 8.3.6.11). Additionally, changes in the Decree for IPARD III, in the article 32 were introduced in order to align with the IPARD III programme.</p>


version 1.2 came into force. One of the programme changes was in section 8.3.6.7 *Common eligibility criteria*:
For sub-measure 7.2 - Support of investments for on farm processing:

- *Natural person, as a holder of family agricultural holding, in accordance with relevant Law on Agriculture and Rural Development, registered in the Register of Agricultural Holdings no later than the day of the publishing of the public call;*
- *Micro and small enterprise as a holder of agricultural holding.*
- *Producer organisations (cooperatives) registered in accordance with the relevant Law on Cooperatives*

*Besides registering in the Register of Agricultural Holdings, applicants have to be registered for primary production in some of the relevant registries of the Directorate for Food Safety, Veterinary and Phytosanitary Affairs and/or the Ministry of Agriculture, Forestry and Water Management, **no later than the date of submission of the application for the grant of support** instead of how it was previously defined in version 1.1 of the Programme- **no later than the day of the publishing of the public call.***

*AA noticed that Section 8.3.6.11 *Specific eligible criteria* regarding the same Measure 7.2 contains provisions from the previous version of the IPARD programme, i.e. it was not modified as section 8.3.6.7- *Applicants have to be registered for primary production in some of the relevant registries of the Directorate for Food Safety, Veterinary and Phytosanitary Affairs and/or the MAFWM, **no later than the day of the publishing of the public call.****

*Also, analyzing the Decree for IPARD III, AA determined that **Article 32** contain provision which is not in accordance with the updated version of IPARD III Programme *Besides registering in the Register of Agricultural Holdings, applicants have to be registered for primary production in some of the relevant registries of the Directorate for Food Safety, Veterinary and Phytosanitary Affairs and/or the Ministry of Agriculture, Forestry and Water Management, no later than the date of**

	<p><i>submission of the application for the grant of support instead of how it was previously defined - no later than the day of the publishing of the public call.</i></p> <p><i>Recommendation:</i></p> <p>Updating IPARD III Programme in order to harmonize criteria foreseen for measure 7.2. (parts 8.3.6.7 and 8.3.6.11), as well as to align Decree for IPARD III with the valid version of IPARD III Programme.</p>	
<p>8.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.8</p>	<p>Insufficient staff in the IPARD Agency</p> <p><i>ICF (1) Control environment</i></p> <p><i>4 The organisation demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.</i></p> <p><i>4.3. Mobility. Entities plan staff mobility to strike the right balance between continuity and renewal.</i></p> <p><i>4.4 Succession planning and deputising arrangements for operational activities and financial transactions are in place to ensure continuity of operations.</i></p> <p>Level of priority: Intermediate</p> <p>Body/-ies concerned by the finding: IPARD Agency</p> <p>During system audit in the IPARD Agency, the AA auditors identified insufficient number of employees.</p> <p>Out of 98 working posts that are envisaged according to the Rulebook on internal organization and systematization of the Ministry of Agriculture, Forestry and Water Management, 86 work posts are fulfilled (including all departments accredited for IPARD programme, except Internal audit department). Additionally, number of employees needed according to the WLA for 2024 is 117. Difference between currently employed and WLA is 31.</p> <p>Considering that IA is in charge of publicity, selection of projects as well as authorisation, control and accounting of commitments and payments and the execution of payments, as provided in Annex A, clause 6b of the FFPA, additional recruitments are more than</p>	<p>Open</p> <p>Both recommendations issued within this finding have not been implemented. Recruitment of staff was not carried out due to the late adoption of the Recruitment Plan and the Personnel Plan at the state level, which represented a formal precondition for initiating recruitment procedures.</p> <p>Following the amendment to the Regulation on the organisation and manner of work of the state administration at the Government session held on 15/12/2025, the Agency for Payments in Agriculture, Rural Development and Fisheries was established, taking over the responsibilities of the Directorate for Payments, including those related to IPARD. However, although the Regulation (Art. 62ž) stipulated that the Rulebook on Internal Organisation had to be adopted by 1 January 2026, it has been adopted on 5th of March 2026.</p> <p>Furthermore, in the finding it is stated that 86 work posts were fulfilled (including all departments accredited for IPARD programme, except Internal audit department). Current status is 83 work post fulfilled (including all departments accredited for IPARD programme, except Internal audit department). Therefore, a decrease in the number of employees occurred.</p> <p> IA Staff - february 2026.xlsx!_.xlsx</p>

	<p>necessary in order to ensure effectiveness and efficiency of the work.</p> <p><i>Recommendation:</i></p> <p>The AA recommends the IPARD Agency:</p> <ul style="list-style-type: none"> - Recruitment of necessary staff in order to ensure effectiveness and efficiency of the implementation of IPARD III. - Considering that the Rulebook on internal organization and sistematization does not predict a sufficient number of employees comparing to the workload, adopting of the new Rulebook is necessary 	
<p>9.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.9</p>	<p>Non-appointment of internal control coordinators</p> <p><i>ICF (1) Control environment</i></p> <p>2. <i>The senior management exercises oversight of the development and performance of internal control</i></p> <p>2.2 <i>Each manager oversees the internal control systems within their entity. Each manager oversees the development and performance of internal control. They are supported in this task by internal control coordinators.</i></p> <p>2.4 <i>The internal control coordinators play a key role by coordinating the preparation of the declarations of assurance.</i></p> <p><i>ICF (5) Monitoring activities</i></p> <p>17. <i>The organisation assesses and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management.</i></p> <p>17.1. <i>Deficiencies. With the support of internal control coordinators, the managers consider the results of the assessments of how the internal control system is functioning within the entity. Deficiencies are communicated to management and to the entities responsible for taking corrective action.</i></p> <p>17.2. <i>Remedial action. Corrective action is taken in a timely manner by the staff member(s) in charge of the processes concerned, under the supervision of their management. With the support of the internal control coordinator, each manager monitors</i></p>	<p>Partially closed</p> <p>MA part – closed</p> <p>In the IPARD MA procedures version 1.2 in the document 1.1. General issues of IPARD Managing Authority, role of internal control coordinator was recognized. MA appointed Head of division for Monitoring and Evaluation of IPARD programme as internal control coordinator.</p> <p>IA part – open</p> <p>The ICC has not been appointed yet and it's role has not been envisaged in IA's procedures.</p>

	<p><i>and takes responsibility for the timely implementation of corrective action.</i></p> <p>Level of priority: <i>Intermediate</i> Body/-ies concerned by the finding: <i>Managing Authority and IPARD Agency</i></p> <p>Appointment of internal control coordinators is one of the internal control framework requirements defined in Annex B of the FFPA. The internal control coordinators have a key role by coordinating the preparation of the declarations of assurance. By conducting the system audit, AA found that internal control coordinators are not appointed in the IPARD Agency and Managing Authority, nor are envisaged by their procedures.</p> <p>Recommendation:</p> <p>AA recommends:</p> <ul style="list-style-type: none"> - Appointment of internal control coordinators in accordance with the provisions of the FFPA. 	
<p>10.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.10</p>	<p>Deficiency in irregularity management process</p> <p><i>ICF (1) Control environment</i></p> <p><i>3. Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</i></p> <p><i>3.3. Reporting lines. Senior managers design and evaluate reporting lines within entities to enable the execution of authority, fulfilment of responsibilities, and flow of information</i></p> <p><i>ICF (2) Risk assessment</i></p> <p><i>8. The organisation considers the potential for fraud in assessing risks to the achievement of objectives.</i></p> <p><i>8.1. Risk of fraud. The risk identification and assessment procedures (see principle 7) consider possible incentives, pressures, opportunities and attitudes which may lead to any type of fraud, notably fraudulent reporting, loss of assets, disclosure of sensitive information and corruption.</i></p> <p>Level of priority: <i>Intermediate</i></p>	<p>Open</p> <p>AFCOS Office has updated Guidelines on the reporting of irregularities which entered into force in January 2026. Within Guidelines, role of the NAO was reinforced in verification process of the identifying irregularities by the IA. However, considering that procedures have not been updated yet, AA considers this finding as open.</p>

	<p>Body/-ies concerned by the finding: <i>IPARD Agency and Management Structure (NAOSO)</i></p> <p>According to procedures of IPARD Agency, Management Structure as well as AFCOS guidelines on irregularity management which serve as a basis for development of procedures for irregularities for all IPA bodies, the IA does not submit draft reports and final conclusions on irregularities regarding IPARD programme to the NAO. The only insight that the NAO can achieve regarding cases of irregularities in the IPARD program, is by accessing the Irregularity Management System (hereinafter: IMS). However, according to the procedures of the IA, cases of irregularities shall be entered in the IMS only after final conclusion, which based on past experience, lasts a year or more from initial suspicion on irregularities. Since according to Annex A Clause 4, point 2(b) of the FFPA, <i>NAO shall ensure investigation and effective treatment of suspected cases of irregularities, fraud, corruption and conflict of interest, and the functioning of a related control and reporting mechanism, in accordance with Article 51(2), (3) and (4) of the FFPA</i>, the AA considers that the NAO should be informed and thus involved from the initial suspicion of irregularities, both for the purpose of effective treatment of suspected cases of irregularities as well as for monitoring.</p> <p>Recommendation:</p> <p>The AA recommends:</p> <ul style="list-style-type: none"> • IA and MS should change procedures in order to ensure active role of NAO in process of determining and monitoring of irregularities. 	
<p>11.</p> <p>Refer to System audit Final report (19/2/2025)</p>	<p>Insufficient staff in the Management Structure <i>ICF (1) Control environment</i> <i>4 The organisation demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.</i></p>	<p>Partially closed</p> <p>New Rulebook on internal organisation and systematization within Ministry of Finance was adopted on 9th of October 2025. With the new Rulebook changes in the organisation of Management Structure occurred. Namely, NAOSO - Division for control framework</p>

4.1.11

4.3. *Mobility. Entities plan staff mobility to strike the right balance between continuity and renewal.*

4.4. *Succession planning and deputising arrangements for operational activities and financial transactions are in place to ensure continuity of operations.*

Level of priority: *Intermediate*
Body/-ies concerned by the finding:
MS (NAOSO and AB)

During system audit in the Management Structure, the AA auditors identified insufficient number of employees.

Out of 8 working posts that are envisaged according to the Rulebook on internal organization and systematization of the Ministry of Finance, in the Accounting body, 6 work posts are fulfilled. However, out of them, 2 are on paternity/maternity leave, meaning that currently there are only 4 employees dealing with functions defined for AB.

As regards NAOSO, 7 working posts are envisaged according to the Rulebook and 6 are fulfilled. Out of them, 2 are on maternity leave, meaning that only 4 active employees are dealing with duties defined for NAOSO. Additionally, according to Recruitment plan for 2024, 4 recruitments were planned for MS, while only 1 job advertisement has been published, for which the procedure is still ongoing.

Considering that the NAOSO and AB are authorities established by Montenegro for all programmes implemented through indirect management, AA auditors consider that current number of employees is not enough to ensure effectiveness and efficiency of the MS.

Recommendation:

The AA recommends the Management Structure:

- Recruitment of necessary staff in order to ensure compliance, integrity, effectiveness and efficiency of the management, control and financial

management and system supervision changed name into Division for control framework management and accreditation of the EU support programmes. New Division consists of:

1. Unit for control framework management and monitoring of IPA system and
2. Unit for accreditation and system supervision in agriculture and rural development sector.

AB - Division for national funds and management of the accounts changed name into Division for finance and accounting affairs and coordination of the Growth plan.




According to the new Rulebook, within AB, 7 working posts have been envisaged and there are 6 employees. As regards NAOSO, in total 9 working posts have been envisaged and there are 7 employees. Out of them, in the new Unit for accreditation and system supervision in agriculture and rural development sector, 3 employees have been allocated (out of which 1 is in maternity leave).

	Previous Rulebook (2024)	Staff (2024)	New Rulebook	Current staff
AB	8	6	7	6
NAOSO	7	6	9	7

In comparison to the information from the finding, an improvement is noted. However, AA considers that additional strengthening of staff capacities is needed according to the WLA.



MS staff 2026.xlsx

	management system set up for implementation of IPA III assistance.	
<p>12.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.12</p>	<p>Deficiencies related to AWP and WLA</p> <p><i>ICF (1) Control environment</i></p> <p>4 <i>The organisation demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.</i></p> <p>4.4. <i>Succession planning and deputising arrangements for operational activities and financial transactions are in place to ensure continuity of operations.</i></p> <p>5. <i>The organisation holds individuals accountable for their internal control responsibilities in the pursuit of objectives.</i></p> <p>5.1. <i>Enforcing accountability. The organisation defines clear roles and responsibilities and holds individuals accountable for the performance of internal control responsibilities across the organisation and for the implementation of corrective action as necessary.</i></p> <p>Level of priority: Intermediate Body/-ies concerned by the finding: Managing Authority</p> <p>By reviewing the Annual work plan (hereinafter AWP) and the accompanying procedures of the Managing Authority, the auditors determined that there is no monitoring of the implementation of the AWP, as this is not foreseen in the procedures of the MA.</p> <p>Further, by analyzing the MA's AWP for 2024, the auditors noted that the AWP does not include all the key activities of the MA, such as the preparation of the action plan for technical assistance, etc.</p> <p>Additionally, the auditors noted a discrepancy between the positions envisaged in the MA's Rulebook on internal organization and systematization (18) and the number of employees needed according to the WLA 2024 (11). Since the AWP is not comprehensive, and it serves as the basis for analyzing workload, the AA considers that this could lead to the results of the WLA not reflecting the actual number of employees</p>	<p>Partially closed</p> <ul style="list-style-type: none"> - The scope of the Annual work plan was expanded in order to include other key activities performed by IPARD MA. <u>Therefore, AA considers this part of recommendation as implemented.</u> - In the modification of IPARD MA procedures done in February 2025 (version 1.1) the obligation of semi-annually monitoring of the realisation of the Annual work plan was introduced. <u>Therefore, AA considers this part of recommendation as implemented.</u> - The MA has prepared new WLA for 2026, where the need for additional employment has been presented. <u>Therefore, AA considers this part of recommendation as implemented.</u> - As regards the last recommendation, AA noted that there was a decrease in the number of employees in the MA. Current number of employees is 9, while in the AAAR for FY 2024 we reported 11. Therefore, AA considers this part of the finding as opened. <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  AWP end 2025.pdf </div> <div style="text-align: center;">  AWP 2025 mid.pdf </div> </div> <div style="text-align: center; margin-top: 20px;">  App_1.1.9._WLA_IPARD MA_2026.xlsx </div>

	<p>needed. By checking the number of employees within divisions, AA noted that, for example, in the Division for Technical Assistance and Public Relations of Rural Development, there are only two employees, which is also the required number according to the WLA 2024, while the Rulebook envisages 5 positions. Considering that Montenegro has been entrusted for budget implementation tasks for Measure 9 – Technical Assistance, the AA considers that the MA should strengthen its staff capacities to ensure successful implementation of this measure. Another observation from the audit is that the Recruitment Plan had envisaged hiring one additional employee in the MA for several consecutive years; however, the job advertisement was not published.</p> <p><i>Recommendation:</i></p> <p>The AA recommends the Managing Authority to:</p> <ul style="list-style-type: none"> • Prepare a comprehensive Annual work plan in order to include all key activities to be performed by the MA on annual basis, • Update the procedures in order to include the monitoring of the progress of implementation of the AWP, • Prepare new WLA based on the newly prepared AWP in order to gain insight into the actual workload of the MA, • Strengthen the capacities in order to ensure efficient and effective implementation of MA`s activities. 	
<p>13.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.13</p>	<p>Inconsistencies in Decree for IPA III</p> <p><i>ICFR (1) Control environment</i></p> <p><i>3. Management establishes structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives</i></p> <p><i>3.1. Management Structures are comprehensive. The design and implementation of management and supervision structures cover all policies, programmes and activities. They cover all expenditure types, delivery mechanisms and entities in charge of budget implementation to</i></p>	<p>Open</p> <p>No improvement since previous reporting.</p>

	<p><i>support the achievement of policy, operational and control objectives.</i></p> <p>Level of priority: <i>Intermediate</i> Body/-ies concerned by the finding: NAO</p> <p>Government of Montenegro in July 2023 adopted the Decree for IPA III (OG. 077/23) for IPA III perspective. By analyzing the Decree for IPA III, AA noted some inconsistencies in Annex 1 to the Decree for IPA III:</p> <ul style="list-style-type: none"> - In part 3 it is stated that Head of Managing Authority - for the rural development program shall identify, assess, and manage risks, while according to the Article 25 of the SA, the criteria as set out in Annex B to the FFPA and Annex 2 to the SA regarding risk assessment shall not apply to MA. - In part 4 it is stated that the Accounting Body in particular shall identify, assess, and manage risks, while this function is not envisaged for NAO supporting office. Based on Managing structure procedures and job descriptions, specific tasks of risk management as well as risk coordinator of the MS have been designated to NAOSO employees. <p><i>Recommendation:</i></p> <p>AA recommends:</p> <ul style="list-style-type: none"> • Updating the Decree for IPA III in order to harmonise the process of implementation of financial assistance under IPA III/IPARD III. 	
<p>14.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.14</p>	<p>Absence of KPI – Key performance indicators</p> <p><i>ICF (2) Risk assessment</i></p> <p><i>6. The organisation specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.</i></p> <p><i>6.2. Objectives are set at every level. The entities' objectives are clearly set and updated when necessary (e.g. significant changes in priorities, activities or the</i></p>	<p>Closed</p> <p>In the package of AMD documents, NAOSO has submitted KPIs which have been fulfilled with information on semi-annual and annual basis.</p>

organigram). They are consistently filtered down to the various levels of the organisation, and are communicated and understood by management and staff.

6.3. Objectives are set for the most significant activities. Objectives and indicators cover the entity's most significant activities contributing to the delivery of priorities as well as operational management.

6.4. Objectives form the basis for committing resources. Management uses the objectives set as a basis for allocating available resources as needed to achieve policy, operational and financial performance goals.


6.8. Monitoring. Setting objectives and performance indicators make it possible to monitor progress towards their achievement

Level of priority: Intermediate

Body/-ies concerned by the finding:
NAOSO

According to the Manual of procedures, Part I, Chapter 10 – Annual Management Declaration, point 6. `For the respective year, the Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) are to be defined by NAO/MS within the process of the elaboration of NAO's Guidelines for drawing up AMD. Indicators can be changed on the basis of the semi-annual measurement and specific needs in respect to areas, processes controlled as well as set indicators' levels. The IPA Bodies report on the fulfilment of indicators' values on annual and semi-annual basis. The KPIs and KRIs values defined by the NAO are measured in July for the period from January to June and in January of the following year for the period from January to December of the previous year, in scope of the AMD process. The NAO/SSOs shall be provided with the results and explanations and all other documents related to the KPIs and KRIs measurements by IPA Bodies.






During the audit, auditors identified that KPIs for IPARD III Programme are not defined and prepared by the NAO/NAOSO. Although 2024 is the first year of implementation of IPARD III and the expected percentage of

	<p>realization of some KPIs was zero (e.g. rate of payment claims), the AA considers that it was necessary to define KPIs for 2024 in the part that could be monitored (e.g. Overall application rate). Fulfilment of the KPIs is an indication on weak points in the ICF, in order to undertake the corrective actions.</p> <p><i>Recommendation:</i></p> <p>As KPI's are an important monitoring tool for measuring predefined targets, AA recommends defining KPIs as soon as possible in order that monitoring activities could be carried out in appropriate way.</p>	
<p>15.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.15</p>	<p>Shortcomings in procedures of Internal audit Department of EU funds</p> <p><i>ICF (1) Control environment</i></p> <p>2. <i>The senior management exercises oversight of the development and performance of internal control</i></p> <p>2.2. <i>Each manager oversees the internal control systems within their entity. Each manager oversees the development and performance of internal control. They are supported in this task by internal control coordinators.</i></p> <p>3. <i>Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</i></p> <p>3.3. <i>Reporting lines. Senior managers design and evaluate reporting lines within entities to enable the execution of authority, fulfilment of responsibilities, and flow of information.</i></p> <p>Level of priority: Intermediate Body/-ies concerned by the finding: IPARD Agency</p> <p>By analyzing the Audit Charter as well as the procedures of the Internal Audit Department of EU funds (hereinafter: IAD) within the Ministry of Agriculture, Forestry, and Water Management, AA noted that the IAD shall send to the NAO only the annual report and not the individual reports related to the IPARD programme. Having in mind that the NAO shall bear the overall responsibility for setting</p>	<p>Partially closed</p> <p>Based on submitted evidence, AA noted that the Audit Charter of the IAD of EU funds has been updated in October 2025, and submitting of individual audit reports related to IPARD Programme to the NAO has been introduced. However, there were no changes in the procedures, and accordingly, recommendation related to updating the procedures has not been implemented yet.</p> <p> Povelja new 2025.pdf</p>

	<p>up and functioning of the IPA III management and control system in the IPA III beneficiary and in that order shall take account of the results of all external verifications and audits related to the IPA III management and control system, including those carried out by the internal audit, Audit Authority, the Commission or the European Court of Auditors, and coordinate preparation and implementation of related action plans, with a view to improve the compliance and effectiveness of the IPA III management and control system, AA considers that IAD of EU funds should incorporate into the Charter as well as procedures requirement of sending to the NAO individual audit reports related to IPARD issues, not just the annual report, so NAO can react promptly.</p> <p><i>Recommendation:</i></p> <p>The AA recommends:</p> <ul style="list-style-type: none"> - Updating the Charter and Manual of procedures of DIA of EU funds in order to include submitting of individual audit reports related to IPARD Programme to the NAO. 	
<p>16.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.16</p>	<p>Lack of staff Internal audit Department of EU funds</p> <p><i>ICF (1) Control environment</i></p> <p>4. <i>The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.</i></p> <p>4.3. <i>Mobility. Entities plan staff mobility to strike the right balance between continuity and renewal.</i></p> <p>4.4. <i>Succession planning and deputising arrangements for operational activities and financial transactions are in place to ensure continuity of operations.</i></p> <p>Level of priority: Intermediate</p> <p>Body/-ies concerned by the finding: IPARD Agency</p> <p>During system audit, the AA auditors identified insufficient number of employees in the Internal Audit Department of EU funds (hereinafter: IAD) within the Ministry of</p>	<p>Open</p> <p>Recruitment of staff was not carried out due to the late adoption of the Recruitment Plan and the Personnel Plan at the state level, which represented a formal precondition for initiating recruitment procedures</p>

	<p>Agriculture, Forestry, and Water Management: Namely, envisaged number of work posts within IAD of EU funds in the Rulebook on internal organization and systematization of Ministry of Agriculture, Forestry, and Water Management from March 2024 is 4 - Head of IAD, Superior internal auditor, Senior internal auditor and Junior internal auditor. Currently, 2 positions are fulfilled (Head and 1 Superior Auditor). According to the WLA for 2024, the number of needed employees is 3 and having in mind audit universe (audit of EU funds and other donor funds in the field of agriculture, forestry, and water management) and new challenges related to IPARD III programme, strengthening the staffing capacities is more than necessary.</p> <p><i>Recommendation:</i></p> <p>The AA recommends: - recruitment of necessary number of staff in order to strengthen the IAD and its independent, objective assurance and advisory functions.</p>	
<p>17. Refer to System audit Final report (19/2/2025) 4.1.18</p>	<p>Absence of whistleblowing procedure <i>ICF (1) Control environment</i> 1. <i>The organisation demonstrates a commitment to integrity and ethical values.</i> 1.1. <i>Tone at the top. All management levels respect integrity and ethical values in their instructions, actions and behaviour.</i> <i>ICFR (4) Information and communication</i> 14. <i>The organisation internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.</i> 14.2. <i>Separate communication lines, such as whistleblowing hotlines, are in place at organisation level to ensure information flow when normal channels are ineffective.</i></p> <p>Level of priority: <i>Intermediate</i> Body/-ies concerned by the finding: <i>Managing Authority</i></p> <p>During system audit, the AA auditors identified that a whistleblowing procedure that foresees possibility and protection of the right</p>	<p>Closed</p> <p>MA introduced whistleblowing procedure in the updated version of the procedures.</p>

	<p>of an employee or third side to report irregularity in management's behaviour, and protection of person who reports is not included in the Manual of procedures of the Managing Authority.</p> <p><i>Recommendation:</i></p> <p>The AA recommends:</p> <ul style="list-style-type: none"> Managing Authority should establish whistleblowing procedure in accordance with all relevant EU and national legislations, in order ensure possibility of an employee or third side to report irregularity as well as protection of person who reports irregularity. 	
<p>18.</p> <p>Refer to System audit Final report (19/2/2025)</p> <p>4.1.19</p>	<p>Inadequate Organizational chart in Manual of procedures</p> <p><i>ICF (1) Control environment</i></p> <p><i>3. Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</i></p> <p><i>3.1 Management Structures are comprehensive. The design and implementation of management and supervision structures cover all policies, programmes and activities. They cover all expenditure types, delivery mechanisms and entities in charge of budget implementation to support the achievement of policy, operational and control objectives.</i></p> <p>Level of priority: Minor</p> <p>Body/-ies concerned by the finding: IPARD Agency</p> <p>AA has determined that the organogram presented in the Manual of Procedures of IPARD Agency, version 1.0, Part I, DP-00 Vademecum, chapter 2.2 Chart 2 is not in accordance with the current Rulebook on internal organization and systematization of the Ministry of Agriculture, Forestry and Water Management.</p> <p>Recommendation:</p> <p>The AA recommends:</p>	<p>Open</p> <p>No improvement since previous reporting. After adoption of the new Rulebook on Internal Organization and Systematization, new organogram will be incorporated as an integral part of the Manual of Procedures.</p>

	<ul style="list-style-type: none"> - updating the organogram in the Manual of Procedures in order to align it with current Rulebook and considering other way of presenting the organizational structure, due to possible frequent changes in Rulebooks. 	
<p>Findings and recommendations identified during system audit from final reports issued on 22nd February 2024 – No. 3011-1-06-143 including relevant management response.</p>		
<p>2, Refer to System audit Final report (22/02/2024) 4.2</p>	<p>Deficiencies in security control Level of priority: Major Body/-ies concerned by the finding: IPARD Agency ICF requirement 3 (b) Security control activities - ensuring adequate security procedures (IT and otherwise) that assets and data are kept secure from unauthorized interference and physical damage - ensuring that appropriate access rights are in place both in terms of physical access and electronic access at all levels In the previous period, all computers within the IPARD Agency (hereinafter: IA) had been joined to the gov.me domain, and their administration was the responsibility of the Ministry of Public Administration (the Ministry responsible for overall security, administration and domain, hereinafter: Ministry). However, in August 2022, the public administration suffered a significant cyber-attack. After the event, by raising the local domain (ap.local), all computers within IA were formatted with the new OS and joined the new domain, with which IA took over their administration. Although the Information System of the IA is physically separated from the Ministry, the IA website, e-mails and certain services, as well as Internet access remained directed towards the information system of the Ministry. However, Audit Authority (hereinafter: AA) noted that during cyber-attack, since IA website and e-mails were unavailable, there were delays in the publication of public invitations and invitations to offers. During system audit, the AA noted significant improvements in Information system security following the cyber-attack, however, the</p>	<p>Partially closed</p> <ul style="list-style-type: none"> - Upgrade the operating systems on the application and database servers - based on evidence received by the IA, AA considers this recommendation as implemented <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  Snimak ekrana 2026-01-30 093633.çIACS-IPARD Servers I </div> <div style="text-align: center;">  VMWare </div> </div> <ul style="list-style-type: none"> - Ensure maintenance agreement or service level agreement for the application servers – in the website: https://cejn.gov.me/tenders , AA found contracts for application maintenance. Consequently, AA considers this recommendation as implemented. <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  Ugovor RPG-SIZEP 2025.pdf </div> <div style="text-align: center;">  Ugovor za softver za racunovodstvo.pç </div> </div> <div style="text-align: center; margin-top: 10px;">  Ugovor-GSAA.pdf </div> <ul style="list-style-type: none"> - Regularly implement and update security patches – Based on evidence received by the IA, which is presented above, AA considers this recommendation as implemented. - Perform vulnerability assessment and penetration testing, in order to identify, quantify and prioritize the vulnerabilities in the system as well as to evaluate the

auditors also identified the following deficiencies:

- The operating systems on the application and database servers are not upgraded to the latest version (e.g. the application server has Microsoft Windows Server 2012 R2 Standard, version: 6.3.9600 Build 9600 for this OS EOL is 10th October 2023),

- There is no maintenance agreement or service level agreement for the application servers,

- Security patches of VMware ESXi hypervisor and vCenter server after the cyber-attack was not carried out (VCSA is on version 6.7.0.50000, as of 2021-09-21, VMware has officially declared vSphere 6.7. x (ESXi 6.7) as End of General Support starting from 15th October 2022)

- Although certain measures are in place, IS vulnerability assessment and penetration testing have not been performed until now, which gained importance after the event,

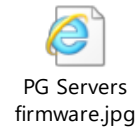
- the firmware was also not updated, it remained on the versions on which it was initially installed, etc.

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

Additionally, AA noted that IA does not fulfil some of the work responsibilities derived from version 2.3 of the procedures. Namely, ISO does not prepare the quarterly report on the information security and does not present the security controls for minimize potential risks, which is one of the responsibilities defined in the Manual of procedures, v.2.3. Further, annexes such as DP-IT-00-24 - Monitoring

security of system – as regards this part, AA replied on vulnerability and penetration testing in the Annex 6 related to the Action plan for implementation of the ISO 27001. Therefore, **AA will consider this part of the finding as closed and we will monitor implementation of this recommendation through follow up on realisation of the AP.**

- Regularly update firmware on servers, storage devices, etc. – based on evidence received by the IA, **AA considers this recommendation as implemented.**



- As regards Substitution plan, it still envisages that ISO can be substituted by the Head of IT department. This part of the finding is considered as open and will be further monitored.

	<p>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"> - 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"> o Upgrade the operating systems on the application and database servers, o Ensure maintenance agreement or service level agreement for the application servers, o Regularly implement and update security patches, 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, o Regularly update firmware on servers, storage devices, etc. - IA has an official version of procedures, Manual for IT, v.2.3. and AA considers that IA should operate according to it. Therefore, AA recommends IA to prepare appropriate documents in accordance with Rulebook on internal organisation and systematisation and to fulfil work responsibilities arising from formalized procedures (v.2.3). - AA considers that IA Manual of procedures version 2.3 (Access control policy, Information Security Policy, Manual for IT sector and Physical Control) which has been adopted in September 2021 needs updating and additional complementation to align with ISO 27002 requirements. <p>AA reply 2024:</p>	
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Implementation of the recommendation will be further monitored

- 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.

- As regards the part related to procedures, IA adopted new procedures in line with ISO 27002. Therefore, this part of recommendation is outdated.

AA reply in AAAR 2024

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.



Novi vCentar - Svi serveri.png




Stari vCentar - Svi serveri.png

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.



ugovori aktuelni.PNG

Applications that currently do not have a maintenance contract are the Register of Agricultural Farms, and the Agricultural Parcel Identification System (SIZEP). The

	<p>procurement has been unsuccessfully advertised several times. The fourth call for SIZEP is currently underway and can be viewed on the CeJN website. https://cejn.gov.me/tenders/view-tender/82315</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> <div style="text-align: center;">  <p>Novi vCenter - Verzija VMware vSpt</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>	
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Findings and recommendations identified during system audit from final report issued on 10th 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>Inadequate recording and reporting of irregularities Body/-ies concerned: IPARD Agency Level of priority: Intermediate ICF requirement 2. (c) IPA body should ensure that irregularities noted lower down in the organisation are reported appropriately and followed-up, including protection for "whistle-blowers". During compliance testing and review of IPARD Agency documentation, we have identified following deficiencies:</p> <ul style="list-style-type: none"> - Non-compliance of Manual of irregularity with Guidelines on irregularity management issued by AFCOS Office of Montenegro (hereinafter: Guidelines) - Irregularity register according to Manual of irregularity doesn't have all relevant columns which contains Irregularity register prescribed by Guidelines such as: <ul style="list-style-type: none"> o Date of the first information leading to suspicion of irregularity; o Source of first information; o Date of verifying Irregularity Alert Form; 	<p>Partially closed</p> <p>Regarding this finding, as it was stated in previous Reports all parts of finding can be considered as closed unless part related to Untimely reporting and inefficiency in proceeding irregularity cases. As regards this part there is still present a concerning gap between the initiation of the procedure for determining irregularities and the adoption of a Conclusion on the established irregularity following the receipt of information on the suspicion of an irregularity.</p>
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	<ul style="list-style-type: none"> ○ Description of suspicion of irregularity; ○ Temporary measures for protection of financial interests; ○ Initiated procedure for irregularity identification; ○ Suspicion of fraud; ○ Established irregularity; ○ Date of issuing Conclusion on established irregularity / non-existence of irregularity; ○ Report included in IMS system; ○ Reference number in IMS system; ○ Breached provisions of European Union law; ○ Conducted control through which irregularity was identified; ○ Description of irregularity; ○ Date of closing the case; ○ Institutions informed on the irregularity; ○ Remarks. <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"> - Non-completion of Irregularity alert form according to Guidelines <ul style="list-style-type: none"> - According to Guidelines Implementing agency immediately assessed truthfulness of received information on suspected irregularity. Depending on whether further investigation is needed, the Agency should fill in the envisaged space "further proceeding point A or B" in Irregularity Alert Form (Annex 1 of Guidelines). Instead the IPARD Agency uses their form prescribed by Manual of irregularity (Report on suspected/detected irregularities – DP-01-01) which is not aligned with prescribed annex from Guidelines, and which employee fulfils within 	
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	<p>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.</p> <p>- Untimely reporting and inefficiency in proceeding irregularity cases - Guidelines for the completion of the standard form for quarterly communications of irregularities in connection with the Instrument for Pre-Accession Assistance (IPA) issued by OLAF prescribe obligation for beneficiary countries within the IPA programme to report immediately to the Commission every irregularity as well as to undertake recovery proceedings. (Point 8, page 3). Also, according to Manual of irregularity (Chapter 9-Reporting irregularities, 9.1.1-Initial reporting) and Guidelines (Chapter VI-Reporting on identified irregularities, VI.2- Initial reporting) the Implementing agency immediately submits to AFCOS Office an initial report in the framework of IMS system. Therefore, during system audit certain delays were noted regarding cases recorded in Irregularity Register.</p> <p>Irregularities regarding these cases are confirmed and some of them submitted to AFCOS as following: 1) Recipient with ID No 0278 - irregularity noticed by AA report on 30th December 2019 confirmed by IA on 29th June 2020 and registered in AFCOS on 6th July 2020; 2) Recipient with ID No 0127 – irregularity noticed by AA report on 30th December 2020, confirmed by IA</p>	
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on 6th March 2020 and registered in AFCOS on 6th July 2020; 3) Recipient with ID No 0005 - irregularity noticed by AA on 4th March 2020 confirmed by IA on 17th June 2020 and registered in AFCOS on 6th July 2020; 4) Recipient with ID No 0228 - irregularity noticed by AA on 4th March 2020 confirmed by IA on 17th September 2020 and registered in AFCOS on 4th November 2020; 5) Recipient with ID No 0114 – despite rejection letter and decision for partial payment which contains information that part of investment is rejected due to irregularity, there is no report about irregularity and there is no confirmation by IA, neither was the case registered in AFCOS system; 6) Recipient with ID No 0125 – even though the AA recommended initiating investigation related to potential irregularity on 20th November 2019, there is no information about this case neither in registers, reports or other relevant documents and there hasn't been any conclusion about it yet.

- **IPARD Agency doesn't issue a Conclusion on irregularity in accordance with Guidelines (template from Annex 03)** – IPARD Agency doesn't issue a conclusion on every suspected irregularity in line with the Guidelines (Annex 03), they draw conclusions on **identified** irregularities at sectoral meetings organized due to current cases of irregularities instead.
- **Incompleteness of the Irregularity register** – according to Guidelines (Annex 2 – Irregularity register) every suspicion of irregularity should be noted in the Irregularity register. However, IPARD Agency doesn't adequately fulfil the Irregularity register, although there were reported suspicions of irregularities.

Nonfulfillment of Table of deadlines – According to Manual of irregularity (Chapter

7) there should be established the Table of deadlines where all deadlines should be monitored. During system audit it was determined that Table of deadlines was not filled in.

Recommendation:

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

	<p>Guidelines, we recommend IPARD Agency to issue a Conclusion on irregularity (Annex 03) which would provide detailed description of irregularity cases.</p> <ul style="list-style-type: none"> - Completion of the Register of irregularities – regarding observations set out in point 5 of finding, we recommend IPARD Agency to record all cases in the Register of irregularities for which the suspicion of irregularities has been reported, for the purpose of easier monitoring of the further course of events related to these cases and prevention of the occurrence of irregularities or fraud. - Filling in the Table od deadlines – as it was outlined in point 6 of finding, we recommend IPARD Agency to fill in the Table od deadlines which would provide easier monitoring of cases and clear review of information flow. <p>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, 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.</p> <p>Implementation of this recommendation will be further monitored.</p> <p>AA reply January 2024: Partially closed Analyzing the relevant documentation related to irregularities, a large gap is still observed</p>	
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	<p>from the moment of receiving information about the existence of suspicious on irregularities to its determination.</p> <p>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.</p> <p>The implementation of recommendation will be further monitored.</p> <p>AA Reply AAAR 2024</p> <p>Open</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.</p> <p>Furthermore, certain delays are noticed regarding reporting in IMS.</p> <p>AA explained in more details for every open case in the Register of Irregularities/IMS in the AAAR, section 5.17.</p>	
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	<p>The importance of this process for the overall functioning of the system has increased the level of priority of the finding to major.</p> <p>AA will monitor implementation of this recommendation and report in AAAR for IPARD III.</p>	
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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.

The overall conclusion on the ICF is presented in the following matrices¹³:

IPARD Agency

MATRIX - Assessment of the ICF (IPARD AGENCY) - IN CASE OF NO DELEGATED BODIES AND YES ADVANCES																									
Assessment Component* Procedure	Control environment						Risk management		Control activities				Information and Communication**		Monitoring of the internal control framework				Evaluation at assessment criteria		General conclusion				
	Organisation		Human Resources		Delegation		S	I at 5%	Control activities		S	I at 10%	S	I at 5%	Monitoring		W	T							
	S	I at 15%	S	I at 5%	S	I at 5%			S	I at 50%					S	I at 5%			S	I at 5%					
Weighting / Scoring	S	I at 15%	S	I at 5%	S	I at 5%	S	I at 5%	S	I at 50%	S	I at 10%	S	I at 5%	S	I at 5%	S	I at 5%	Weighted total						
Operations	Validation and authorization ***	Administrative	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		
		On-the-spot 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	4	0.2			3	0.15	4	2	3	0.3	4	0.2	3	0.15	3	0.15	15%	3.75	0.56			
	Advances and securities	4	0.6	4	0.2			3	0.15	4	2	3	0.3	4	0.2	3	0.15	3	0.15	10%	3.75	0.38			
	Debts management							3	0.15	2				3	0.15	3	0.15	3	0.15	20%	2.00	0.40			
														General conclusion										2.88	
														Assessment of ICF										works (medium impact)	

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

Overall conclusion on the ICS in IPARD Agency is Works (medium impact) with the score of 2.88.

¹³ Presented in Annex 1 to this Report

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 III accounts and financial operations	4	3	n/a	3	3	2	3	4
Paying functions	Authorisation and control of payments	4	3	n/a	4	4	2	4	4
	Accounting for commitment and payment	4	3		3	3	2	4	4
	Debt management	4	3	n/a	3	3	2	3	3
	Treasury	4	4	n/a	4	3	2	3	4

Overall average	3.285714286
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LEGEND:				
1	to	1.5	=	not working
1.51	to	2.5	=	working partially (significant impact)
2.51	to	3.5	=	works (medium impact)
3.51	above		=	works well (minor impact)

Overall conclusion on the ICS in Accounting body 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	4	3	n/a	3	3	2	3	3

Overall average	3.00
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LEGEND:				
1	to	1.5	=	not working
1.51	to	2.5	=	working partially (significant impact)
2.51	to	3.5	=	works (medium impact)
3.51	above		=	works well (minor impact)

Overall conclusion on the ICS in NAO Support Office is Works (medium impact) with the score of 3.00.

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	2	n/a	3
	Programme monitoring	3	2	n/a	3
	Evaluation	4	2	n/a	4
	Reporting	4	3	n/a	4
	Coordination	4	3	n/a	4
Implementing functions	Publicity	3	2	n/a	2
	Verifiability and controlability of measures	3	3	n/a	3
Overall average					3.047619048

LEGEND:

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

Overall conclusion on the ICS in Managing Authority is Works (medium impact) with the score of 3.05.

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	13 years and 9 months	12 years and 9 months	P	Certified auditor/ State auditor	Preparation of engagement plan. Coordination, supervision, review, and support. Final report
	Marko Tomčić	Authorized Auditor	7 years and 11 months	7 years and 11 months	P	Certified auditor/ State auditor	ICFR III Control activities (10) – compliance, performing substantive testing on the sample transactions
	Maja Klikovac	Authorized Auditor	5 years and 5 months	5 years and 5 months	P	Certified auditor/ State auditor	ICFR III Control activities (10) – compliance, performing substantive testing on the sample transactions
	Ksenija Krsmanovic	Junior Auditor	1 year and 5 months	1 year and 5 months	P	N/A	ICFR III Control activities (10) – compliance, performing substantive testing on the sample transactions

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 from which the substantive testing sample was drawn, contains all final and interim payments made by IPARD Agency to the recipients and included in the annual declaration for the financial year 2025. There were 10 final payments and 8 interim payments from IA to recipients, in total gross amount of EUR 3.333.360,37€ (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. AA used 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 IA to the recipient.

Considering the small number of payments made in FY 2025, AA conducted one audit of operations and conducted one sampling from the total population of operational transactions.

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 18 (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. $18 \times 20\% = 3,6$, i.e. 4 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.

The AA, using IDEA software, randomly chose 4 payments (3 final and 1 interim) in amount of 1.882.219,61 € (EU part). Sample is presented below:

No.	Application ID	Contract reference	Declared expenditure			
			Measure	Quarter	EU part	National part
			3	4	5	6
1	24-01-3-0008	09-908/24-21728/21	3	Q4	850.539,00 €	283.513,00 €
2	24-01-3-0009	09-908/24-21731/17	3	Q3	733.785,00 €	244.595,00 €
3	24-01-3-0049	09-908/24-22301/34	3	Q4	167.893,61 €	55.964,54 €
4	24-01-3-0034	09-908/24-22093/19	3	Q4	130.002,00 €	43.334,00 €
Total:					1.882.219,61 €	627.406,54 €

When it comes to the audited value, out of total amount of final and interim payments of 3.333.360,37 € (EU part), the AA by substantive testing covered 1.882.219,61 € which presents 56,47 % 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 level¹⁴, 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 2025, amounted to $3.333.360,37 \times 2\% = 66.667,21$ €.

All sampled 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 FFFPA and the Sectoral Agreement, IPARD III Programme, national legislation, as well as specific requirements per call for applications of each sampled project.

¹⁴ For the purpose of error evaluation, the AA used only EU part of gross expenditures.

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

After administrative verification, the AA performed on-the spot verification of the sampled projects for substantive testing, 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, 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 dual purpose testing i.e. compliance testing on the transactions sampled for substantive testing. According to DG AGRI guideline no 2, compliance testing should be carried out on at least 10 transactions for each of the populations defined. Therefore, using professional judgment, the AA selected additional 6 transactions from the expenditures declared in FY 2025. The sample covered a variety of transactions respecting the principle of diversity (coverage) which implies all relevant measures (3, 7.1 and 7.2), different types of sectors and investments, 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.

There were no cases of irregularities for IPARD III. Additionally, as regards debts for IPARD III programme, there were no cases presented in Debtor’s Ledger for FY 2025.

When it comes to the movements in the IPARD Euro account, the AA identified that there were 19 transactions/movements in total (debit and credit) for period from 01/01/2025 to 31/12/2025. Considering that pair “payment execution/control activity” for Accounting Body was assessed as “Works” for FY 2025, according to Guideline No 2, minimum sample size is 9 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.

When it comes to the advance payments, there were 18 transactions during FY 2025. Considering that pair advances/control activities in the ICF matrix for IPARD Agency was assessed as "Works well" and number of advance payments (under 50), according to Guideline No 2, minimum sample size is 8 transactions. Using non-statistical methodology by IDEA software, AA randomly chose 8 advance payments. AA performed verifications in 8 advances 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 an advance payment has been made.

During dual purpose testing of the advance payments, the AA verified legality and regularity of 8 transactions in total amount of 956.833,16 €. 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.

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 2025, 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

There were no negative items for financial year 2025.

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

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

	Amount of expenditure declared	
	Public contribution (EU + national)	EU part only
Quarterly declarations		
1st quarter	0,00 €	0,00 €
2nd quarter	107.377,32 €	80.532,98 €
3rd quarter	2.104.297,35 €	1.578.223,01 €
4th quarter	4.760.470,30 €	3.570.352,69 €
Sum of quarterly declarations	6.972.144,97 €	5.229.108,68 €
Annual declaration (D2)	5.229.108,68 €	5.229.108,68 €
Difference	1.743.036,29 €	0,00 €

AA identified difference in amount 1.743.036,29 EUR between public expenditure declared within the interim quarterly declarations (D1s) and the public expenditure declared within the Annual Declaration (D2). Namely, as it stated in point 6.3, Annual declaration of accounts (D2) for financial year 2025, issued by the NAO, in its first paragraph does not reflect the correct information on the total gross amount of public IPARD III expenditure (EU + national). Instead of 6,972,144.97 EUR, the stated amount is 5,229,108.68 EUR, which represents only the EU share of expenditures.

However, there are no differences between the amount of EU contribution declared within the interim quarterly declarations (D1s) and the amount of EU contribution declared within the Annual Declaration (D2) related to the EU part for the FY 2025.

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	5.229.108,68 €
Sum of payments stated in the list of payments	5.229.108,68 €
Difference	0,00 €

AA confirms that in FY 2025 there were no differences between the payments made and registered in the List of payments and gross expenditure declared in the Annual Declaration (D2). Therefore, the Annual Declaration (D2) is reconciled with the List of payments.

5.4.3 Verification of the correctness of the list of payments (Article 47(d) of the SA III)

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 2025;
- 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;
- Payments to the recipient were made within five working days of the date of debiting the amount against the IPARD Euro Account.

Besides above, 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 4 final and interim payments, i.e. 20 % of 18 of operational transactions in the List using non-statistical methodology by IDEA software.

The AA noted that the List of all payments does not accurately reflect the number of days elapsed between the receipt of the payment request and the issuance of the payment order for seven transactions. Namely, AA identified that incorrect formula was applied for seven transactions in the Excel document which was submitted to the EC on 13th February and thus resulting in a wrong information. It should be emphasized that, based on AA's check no payment exceeded the six-month deadline for execution.

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

Reconciliation of the balance of IEA	
Document	Amount
D2	4.529.647,31 €
Bank account statement 31.12.	4.529.647,31 €
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

N/A

5.4.6 Reconciling the declared closing balance of the debtors' ledger

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

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

Reconciliation of the balance of debtors' ledger	
Document	Amount¹⁵
D2	0,00 €
Debtors' ledger	0,00 €
Difference	0,00 €

¹⁵ Since the D2 presents the principal amount of the debts, in this table, only principal amounts of debts are reconciled

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 31.12.2025).

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 5.229.108,68 €. There are no debts presented in the Debtors ledger for FY 2025, and consequently, no recovered amount. In form D2 net expenditure is presented in total amount of 5.229.108,68 €.

5.4.6.3 Roll forward of the debtors' ledger

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

This table is prepared based on information presented in Debtors ledger which was submitted to the EC on 13th February 2026 as part of Annual account package.

The AA confirms that, 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:

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

Reconciliation of the balance of IEA	
Document	Amount
D2	4.529.647,31 €
Bank account statement 31.12.	4.529.647,31 €
Difference	0,00 €

The AA confirms that closing balance of the IPARD Euro account declared in the D2 is equal to the actual closing balance of the IPARD Euro account on December 31st, 2025.

5.4.7.2 Roll-forward of the IPARD Euro account

During FY 2025 the Commission transferred to the IPARD III Euro Account two payments on the basis of quarterly declarations for Q2 and Q3 related to FY 2025 in total amount of 1.658.755,99€ as well as one payment regarding EC pre-financing in total amount of 3.900.100,00€.

During FY 2025, there were no recovery transactions in the IPARD III Euro Account. Also, there were no written-off amounts.

On December 31st 2025, on the IPARD III Euro Account there was an amount of 4.529.647,31€.

As regards interests, the deposit account is not opened and therefore there is no realized interest income. Therefore, the balance of interest by December 31st 2025 was 0,00 €.

	Principal amount (EUR)	Interest (EUR)
Opening balance of the IPARD Euro account	4.199.900,00	0,00
Current account <i>[account number]</i>	4.199.900,00 [907-0000000088801-79]	0,00
Deposit account <i>[account number]</i>	0,00	0,00
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00
<i>[Deposit number] / [due date]</i>	0,00	0,00
<i>[Deposit number] / [due date]</i>	0,00	0,00
Transactions in the financial year		
Amounts received from the Commission in the financial year	5.558.855,99	
- for pre-financing	3.900.100,00	
- for covering expenditure executed in the previous FY	0,00	
- for covering expenditure executed in the current FY	1.658.755,99	

	Principal amount (EUR)	Interest (EUR)
Interest accrued on the IPARD Euro account during the financial year		0,00
Amount of expenditure	5.229.108,68	0,00
Amount of national contribution financed from interest		0,00
Recovered amounts	0,00	
Written-off amounts	0,00	
Other transactions (to be broken down in detail)		
Expenditure excluded from the declarations of expenditure	0,00	0,00
- financial adjustments made by the AB	0,00	
Payment of financial corrections made by the Commission	0,00	
Bridge financing	0,00	0,00
- funds transferred from state budget	0,00	
- funds transferred to the state budget	0,00	
Closing balance of the IPARD Euro account	4.529.647,31	
Current account	4.529.647,31	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:

	IPARD Euro account			
	<u>Principal amount</u> <u>(EUR)</u>	<u>Interest</u> <u>(EUR)</u>		
Opening balance of the IPARD Euro account	4.199.900,00	0,00		
Current account <i>[account number]</i>	4.199.900,00 <i>[907-0000000088801-79]</i>	0,00		
Deposit account <i>[account number]</i>	0,00	0,00		
Other amounts deposited in the banks for the purpose of accrual of interest	0,00	0,00		
<i>[Deposit number] / [due date]</i>	0,00	0,00		
<i>[Deposit number] / [due date]</i>	0,00	0,00		
Transactions in the financial year				
Amounts received from the Commission in financial year	5.558.855,99			
- for pre-financing	3.900.100,00			
- for covering expenditure executed in the previous FY	0,00			
- for covering expenditure executed in the current FY	1.658.755,99			
Interest accrued on the IPARD Euro account during the financial year		0,00	Annual declaration amount of expenditure declared	Difference
Amount of expenditure	5.229.108,68	0,00	5.229.108,68	0,00
Amount of national contribution financed from interest		0,00	Debtors' ledger - EU part only	
			Principal amount	Interest
				Difference

	IPARD Euro account				
	<u>Principal amount</u> <u>(EUR)</u>	<u>Interest</u> <u>(EUR)</u>			
Recovered amounts	0,00		0,00	0,00	0,00
Written-off amounts	0,00		0,00	0,00	0,00
Other transactions [to be broken down in detail]					
Expenditures excluded from the declarations of expenditure	0,00	0,00			
- financial adjustments made by the AB	0,00				
Financial corrections made by the Commission	0,00				
Bridge financing	0,00	0,00			
- funds transferred from state budget	0,00				
- funds transferred to the state budget	0,00				
Closing balance of the IPARD Euro account	4.529.647,31				
Current account	4.529.647,31	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 result of the audit of the Annual Accounts and the reconciliations made for IPARD III for FY 2025, no deviations were found regarding completeness, accuracy and veracity of the amounts, except deficiencies presented in section 6.3 of this Report.

Total amount of expenditure declared to the Commission for FY 2025 is equal to 5.229.108,68€¹⁶ (EU part) within three¹⁷ quarterly declarations submitted by NAO. First one (D1 – Q2) was declared on 24th July 2025 in amount of 80.532,98€, second (D1 – Q3) was declared on 31st October 2025 in amount 1.578.223,01 € and third (D1 – Q4) was declared on 27th January 2026 in amount of 3.570.352,69€.

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.

There were no negative amounts.

5.6 Use of non-statistical sampling

In Guideline 2 “Audit strategy”, point 7.1.3.1 it is defined that in case of population with 500 transactions or less, non-statistical sampling methodology should be used. Considering the number of total transactions during FY 2025, where IPARD Agency executed 18 final and interim payments to the recipients, the AA used non-statistical sampling methodology. The AA used IDEA software in order to have randomly chosen sample.

5.7 Summary of transaction tested

5.7.1 Operational transactions

Row No	Basic data	EC part of public financing (EUR) or number
	<u>1. Population</u>	
a	Total amount of gross expenditure	3.333.360,37 ¹⁸
b	Materiality = 2% of a	66.667,21
c	Number of transactions in the IPARD population	18
	<u>2. Assumptions used by the AA to determine the sample size</u>	
d	Assessment of the ICS of the IPARD Agency	Works
e	Required sample size in terms of hits	20%
	<u>3. Sample tested</u>	

¹⁶ Total net amount declared to the EC. Regarding FY 2025 gross amount is equal to net amount.

¹⁷ D1 for Q1 FY 2025 was not submitted due to absence of declared expenditures.

¹⁸ Interim and final payments

	<u>3.1 Sample size</u>	
f	Number of transactions tested as part of the substantive testing sample	4
g	Value of the sampled transactions tested	1.882.219,61
	<u>3.2 Errors in the sample</u>	
h	Total no. of formal errors found in the sampled transactions	0
i	Total no. of random errors found in the sampled transactions (overpayments only)	2
j	Value of random errors found in the sampled transactions (overpayments only)	420,29
k	Error rate = j / g	0,02%
l	Extrapolated error = $k * a$	744,32
m	Total no. of financial errors found in the substantive-testing sample which have been classified as known errors	0
n	Value of financial errors found in the substantive-testing sample which have been classified as known errors	0
	<u>4. Tested outside of the sample</u>	
o	Number of additional transactions substantively tested outside the sample	0
p	Total no. of financial errors found in additional transactions substantively tested outside the sample	0
q	Value of known errors identified in additional transactions substantively tested outside the sample	0.00
	<u>5. Errors found during compliance testing</u>	
r	Total no. of financial errors found in compliance testing ¹⁹	0
s	Value of financial errors found during compliance testing classified as known errors	0.00
	<u>6. Calculation of the financial impact</u>	-

¹⁹ Identified errors are result of dual-purpose testing

t	Total error = l + n + q + s	744,32
u	Materiality = b	66.667,21

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

As it is presented in the detailed tables related to debts in Annex 3 (following the template of Annex 2 of Guideline No 3 “AAAR”), there are no debts in the DL for IPARD III programme.

5.7.2.2 Advances and securities (if applicable)

As regards advances and securities, there were 18 advances paid to the recipients and declared to the EC during FY 2025. As a result of substantive and compliance testing of advance payments, no errors were identified.

Basic data	Advances and securities
Value of the population	1.895.748,31
Materiality	37.914,97
Number of transactions in the population	18
Sample size	8
Total value of sampled items tested	956.833,16
Financial errors found from sampling:	No errors found
Extrapolated total error	0,00
Conclusion	
Total error	0,00
Materiality	37.914,97

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

Level of importance: <i>Major</i>	Body and area concerned: <i>IPARD Agency</i>
Finding number and title²⁰: 1. Deficiencies identified in the process of determining deadweight	
Project(s) concerned: n/a	
<p>KAC 2: Appropriate checks to ensure that investment/project/application fulfils all eligibility criteria as laid down in the regulatory framework and the eligibility criteria as laid down in the IPARD III programme (Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a) 19 and 35 SA)</p> <p>a) <i>Ensure that compliance with all conditions applicable established by the Agreements, or laid down in relevant national law or in the IPARD III programme can be checked according to a set of verifiable indicators;</i></p>	
<p>Description of the finding: CONTROL ACTIVITIES</p> <p>10. <i>The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.</i></p> <p><i>Characteristics:</i></p> <p>10.1. <i>Control activities are performed to mitigate the identified risks. They are tailored to the specific activities and risks of each entity and their intensity is proportional to the underlying risks.</i></p> <p>12. <i>The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.</i></p> <p><i>Characteristics:</i></p> <p>12.1. <i>Appropriate control procedures ensure that objectives are achieved. The control procedures assign responsibility for control activities to the entity or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.</i></p> <p>SA in Annex 4. Rules for programming defines “deadweight risk” as risk of inefficiency in public financing. It means that recipients receive subsidies for projects that would have been implemented even without the subsidy. It is also stated in Decree on implementation and procedure for the use of funds from the EU pre-accession assistance instrument IPARD III Programme (“OG”, no. 163/25) in Article 1, point 15): “Deadweight is a situation that occurs when it is determined that the beneficiary of support can implement the proposed investment even without financial assistance through the IPARD III Programme”. Furthermore, according to Article 8 and 16 of the Decree, deadweight is determined on the basis of the values presented in the official financial statements (Balance Sheet and Income Statement) for the last financial year preceding the publication of the Public Call,</p>	

²⁰ Following the ordinal number from the Final Report of Audit of Operations.

including any affiliated entities, which are compared with the amount of the proposed investment for which IPARD support is requested.

- In the Manual of procedures for the unit for technical and economic analysis, in the part related to determining the deadweight, it is stated:

‘When assessing the potential of a company whose founders are 100% owners of another company, are the dimensions of the mother company taken into account? Also, are the values from the financial statements of legal entities related to the mother company taken into account (and if YES in what proportion)?’

Explanation: The mother company is the founder of a large number of companies, some of them are 100% owned, and some are co-owned in a smaller percentage (20%, 30%...).

AA considers this explanation ambiguous since it is not clear which companies shall be taken into consideration and to what extent.

- A lack of clarity was identified in all Public Calls (Annex 3 – List of Required Documentation to be Submitted with the Application for Support). Specifically, the document stipulates that a declaration and a list of affiliated and partner and/or linked enterprises in the country or abroad must be submitted, issued by the responsible person (Executive Director) and duly notarized.

However, this document does not explicitly stipulate that in the declaration related parties of the founder(s) of the beneficiary (natural or legal person) shall be included as well, which may lead to inconsistent interpretation and application of the eligibility requirements.

- Further, during compliance and substantive testing for recipients with application **ID 24-01-3-0009**, Contract reference **09-908/24-21731/33**²¹ and **ID 24-01-3-0034**, Contract reference **09-908/24-22093/19**, certain deficiencies were identified during the determination of deadweight.

Regarding recipient with app. ID 24-01-3-0009 during the calculation of the parameters for determining deadweight not all affiliated entities were taken into account as defined above. Namely, recipient had submitted a statement on affiliated entities, notarized on 13th December 2024, stating that he is affiliated with a total of six companies. The AA conducted a verification of related parties through a credible, licensed portal and confirmed that the recipient remains affiliated with the entities specified in the notarized Statement. However, the IA considered only 5 companies, including recipient himself.

As regards recipient with app. ID 24-01-3-0034, during the determination of deadweight, IA has taken into account only one affiliated entity i.e. the one that was listed in the recipient’s Statement as the sole affiliated entity. However, AA, through verification via credible portals, determined that there are 5 affiliated entities that should have been considered when determining deadweight, including recipient himself.

Recommendation:

Considering the significance of deadweight, the AA recommends the IA to:

- Clearly define in the procedures and in the future public calls which companies shall be taken into consideration for determining deadweight and to what extent,

²¹ At the time of the interim payment, the contract in force was No. 09-908/24-21731/17, whereas at the time of the final payment, the contract in force was No. 09-908/24-21731/33, following the signing of an annex to the contract.

- Require from recipients that are subject to this finding new notarized statements on all affiliated entities in the country and abroad with list of affiliated companies at the moment of publication of the Public Call,
- Determine whether these recipients fulfill deadweight criteria based on newly received statements and submit to the AA obtained results,
- Assess the deadweight criteria with due diligence in the future work, by additional verification through available credible portals,
- Organize trainings for employees, especially new ones regarding assessment of deadweight criteria.

Auditee's response:

The recommendation has been accepted.

In the upcoming public calls, in the section referring to the list of required documentation (Annex 3 – List of required documentation to be submitted with the Application for support), where it is currently stated that the beneficiary must submit a document proving related parties, clearer instructions will be provided on what is considered a related party. In this way, the obligation will be more precisely defined so that the statement includes all related parties, including related parties of the founders/founders of the beneficiary (whether a natural or legal person), in order to avoid different interpretations and ensure consistent application of the requirements.

Furthermore, we note that the currently applicable procedures contain the wording as described in the audit finding. However, in the internal Business Plan Analysis (which is prepared for each applicant, whether a natural or legal person, and is attached together with the Opinion for Economic Analysis in each individual case), the procedure for determining the Deadweight is described in detail and is implemented accordingly.

Below we provide a more detailed description and an example of its application:

“Deadweight” represents a new criterion and requirement that has been implemented starting with the IPARD III programme.

The essence of this criterion is that only those investments are supported which enable the potential applicant to expand and improve production, and which would be implemented without significant support from IPARD funds only with considerable difficulties in financing and timeliness of implementation. In cases where it is assessed that the applicant has the financial capacity to finance the investment without significantly endangering its current operations, IPARD support is not granted, and the funds are instead directed to projects where they are more needed.

Priority is given to investments in agricultural holdings and/or companies that, directly thanks to support from dedicated funds, will expand their capacities, improve production quality, diversify production and thereby create added value, activate unused resources and contribute to the creation of new jobs or the preservation of existing ones.

IPARD procedures define that, for legal entities with regard to the Deadweight criterion, eligible projects are those where the total investment value (including VAT) meets at least one of the following conditions: the value of the investment must not be lower than 5% of the company's equity (Balance Sheet – position within liabilities) or 10% of the net profit achieved in the last financial year. This assessment also includes any related parties.

The above-mentioned description of activities related to Deadweight for legal entities, as originally planned, will be an integral part of the procedure related to this topic. Due to a technical error in the procedures, a working version of the section related to questions raised during the procedure-definition phase remained in the document.

Furthermore, beneficiaries included in the audit sample were requested to resubmit statements on related parties. These statements were duly submitted, after which the Deadweight assessment was performed again. The result of the repeated control is the same as in the previously conducted control. Additionally, in order to ensure full certainty and consistent application of procedures, an

additional verification of the Deadweight criterion will be carried out for all signed contracts. In addition, within this report supported documentation has been attached:



9. Fabrika stočne hrane.zip



34. Šimšić.zip

Furthermore, continuous training is being conducted for staff involved in the assessment of the Deadweight criterion. Within the framework of the annual Training Plan, trainings related to the control and application of the Deadweight criterion are foreseen and will be organized for the relevant staff. In addition, through a TAIEX mission, additional training specifically focused on the Deadweight topic has been requested. Moreover, one mission on this topic has already been carried out within the framework of the Twinning project. These activities demonstrate that we continuously work on improving knowledge and the correct application of this criterion through regular trainings and capacity-building activities.

Conclusion by the AA:

After analysing the submitted IA's reply, the AA noted that the IA has requested statements on all affiliated entities from recipients stated in the finding. IA also conducted additional check of deadweight based on newly received statements. Based on new calculation, these two recipients fulfil the deadweight criteria, which was determined by the AA check as well. Therefore, **these two recommendations are considered as implemented**. Recommendations to be implemented are:

- **Clearly define in the procedures and in the future public calls which companies shall be taken into consideration for determining deadweight and to what extent.** In the submitted Management Reply, the IA described the activities related to deadweight for legal entities, which they plan to integrate in the procedure. However, AA considers that procedures related to determination of deadweight shall be described more clearly and in more detail in order not to mislead the controllers and to ensure proper further verification of IA's work.
- Assess the deadweight criteria with due diligence in the future work, by additional verification through available credible portals,
- Organize trainings for employees, especially new ones regarding assessment of deadweight criteria.

Quantification of the financial impact: n/a

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

AA issued final engagement report on 11th March 2026.

The AA considers finding **as partially closed**.

AA will follow up actions taken by the auditee and report within AAAR for FY 2026.

Level of importance: Major	Body and area concerned: IPARD Agency
Finding number and title: 2. Deficiency regarding general costs assessment	
Project(s) concerned: n/a	
KAC 3: Appropriate checks on the eligibility of the costs of the operation (Article 11(2)(d) SA)	
Description of the finding: III Control activities	

10. The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Characteristics:

10.1. Control activities are performed to mitigate the identified risks. They are tailored to the specific activities and risks of each entity and their intensity is proportional to the underlying risks.

- During substantive testing of recipient with application ID 24-01-3-0049 (Contract reference 09-908/24-22301/34), AA noted that recipient applied, inter alia, for general costs for preparation of the Request for support and for preparation of the Request for payment. Based on the methodology for calculation of general costs presented in DP-UPAP-01 Manual for the Calculation of General Costs, the IA did not approve general costs related to preparation of the Request for support. However, the AA identified an invoice no. 122/2024 in the amount EUR 950,00 in which states that it relates to the preparation of Request for support. The invoice is dated September 2024 and it was paid to the consultant company in December 2024. The IA considered this to be a technical error, explaining that the invoice refers to the preparation of the Request for payment rather than the Request for support. However, considering that recipient submitted Request for payment in December 2025, AA considers that amount EUR 475,00 (50% of 950,00) constitutes ineligible support paid to the recipient.
- In the DP-UPAP-01 Manual for the Calculation of General Costs, it is stated that the estimated value of maximum support for the preparation of documentation for payment for Measures 1 and 7 is 2% of the contracted value of investment, and 1% for Measure 3. During substantive testing of recipient with application ID 24-01-3-0049 (Contract reference 09-908/24-22301/34), who applied under Measure 3, the AA noted that general costs related to the preparation of the payment request were contracted and paid in an amount exceeding 1% of the contracted investment value. Specifically, EUR 4.647,95 was approved by IA for this item, which exceeds the allowable maximum of 1% by EUR 170,77 (contracted investment amount EUR 447.717,98 × 1% = EUR 4.477,18). Therefore, the AA considers that amount of EUR 85,39 (50% of EUR 170,77) constitutes additional ineligible support paid to the recipient.
- During compliance testing of recipient with application ID 24-01-3-0015 (contract reference 09-908/24-20010/28), AA also noted that the contracted amount of general costs related to preparation of documentation for payment was above the maximum 1% of contracted value. However, AA emphasises that recipient did not submit request for payment related to general costs yet, therefore, these costs have been contracted but not paid yet.

Considering the fact that the IA uses a software for the calculation of the general costs, the AA requested from the IA an explanation, all contracts containing general costs, and a list of recipients who have already received payments for general costs for preparation of payment request. The IA responded that the error in the software concerning the calculation of general costs for documentation for payment was detected in April 2025, and that corrective action in the form of software modification was promptly initiated. This has been confirmed by the evidence reviewed by the AA.

Based on the AA's review, only the recipient mentioned in the finding was incorrectly paid, in the amount of EUR 85,39. For one recipient, the amount was reduced at the time of payment, while for the others, for whom the contracted amounts exceed the maximum allowed under the methodology, no payments have been made yet.

The AA considers that, besides the software error, the incorrect calculation of general costs is also affected by the practice of assessing general costs prior to the issuance of the evaluation committee's opinion. Given that the EVC may adjust the amounts requested by recipients though

request for support, the AA considers that general costs should be estimated only after the EVC's opinion has been obtained.

Recommendation:

The AA recommends following:

- Initiate recovery of amount EUR 85,39 (EU part EUR 64,04 and national part EUR 21,35) due to administrative error conducted by the IA.
- Initiate recovery of amount EUR 475,00 (EU part EUR 356,25 and national part EUR 118,75) due to identified irregularity
- For all recipients where it has been identified that the amount of general costs was not calculated correctly, the IA should take all necessary steps to prevent any payment exceeding the maximum amount allowed under the methodology for the calculation of general costs.
- In the future work, the IA should perform the assessment of general costs only after the completion of all procedures required to establish the total eligible amount of the investment (e.g. the Evaluation Committee's opinion), as the maximum support for general costs is calculated in relation to the eligible investment amount.

Auditee's response:

The recommendation has been partially accepted.

IA will initiate the procedure for the recovery of funds in the amount of EUR 85,39 (EU part EUR 64,04 and national part EUR 21,35).

This part of the finding is not acceptable because the recipient submitted invoice no. 122/2024 dated 17 September 2024 for the general cost for preparing the application for support (payment request), which was approved by the Contract of allocation of funds dated 02 June 2025. The recipient submitted the payment request in December 2025, implemented the investment, and the funds were paid on 29 December 2025.

In the Decree on the Implementation and Procedure for the Use of Funds from the European Union Instrument for Pre-Accession Assistance (IPARD III Programme), Article 52 – Decision on Rejection of an Application for Support – stipulates: “The allocation of support funds shall not be approved if the applicant has started the implementation of the investment, including the conclusion of contracts with suppliers or contractors aimed at the implementation of the investment, except for the implementation of general costs.” Furthermore, the decree in Article 22 – General Costs – stipulates that: “General costs may be accepted retroactively only if they relate to a project for which the IPARD Agency has concluded a contract with the beneficiary.” In addition, Article 23 – Ineligible Costs – stipulates: “Costs incurred before the conclusion of the support grant agreement shall not be eligible, except for general costs.”

From all of the above, the recipient did not violate the provisions of the decree, contract and public call. If you believe that the recipient should return the funds, please give us the legal basis on which we should initiate the procedure for the return of funds.

UPAP- The recommendation has been accepted.

We would like to note that the error in the software for calculating general costs related to payment documentation was detected in April 2025. Immediately upon identification of the error, corrective measures were implemented, including software modification and updating, ensuring that the calculation of general costs is now automatically performed in accordance with the applicable methodology. As and evidence of the implemented changes, we are providing a video recording demonstrating the functionalities of the updated software and how the calculation of general costs is now automatically updated, significantly reducing the risk of future errors. The evidence is attached below:



Dokaz za procjenu
opšteg troška za isp

Regarding the identified irregularities, the following measures have been taken:

For all beneficiaries who have signed a contract, a detailed verification of the general costs is already being conducted to ensure that all amounts comply with the maximum allowed limits.

For all beneficiaries where an error in the calculation is identified, contract annexes will be prepared to correct the amounts, ensuring that the funds are accurately calculated and allocated.

For beneficiaries who have submitted a payment request but have not yet received funds, adjustments and reductions will be made in accordance with the correct calculation methodology to prevent any irregularities in payments.

Furthermore, within the procedure for calculating general costs, additional and more detailed instructions will be included to clearly define: which amounts are considered, when the verification and calculation of general costs are performed, and how it is ensured that the maximum amounts are correctly applied. These measures further minimize the risk of future errors and enhance the transparency of the entire process.

The IA confirms that all corrective measures and procedural amendments are already fully implemented and operational, ensuring full compliance with the applicable methodology and rules for calculating general costs, and that such errors will not occur in the future.

Conclusion by the AA:

As regards the second recommendation which was not accepted by the IA, AA states:

AA recommends initiating recovery of the amount not on the grounds that the cost occurred before the grant contract was signed, **but based on the approved general costs defined in the Contract between the IA and recipient**. Namely, the IA approved general costs related to preparation of the request for payment, while general costs related to the request for support were rejected. However, in the invoice received from the recipient it is stated that amount of 950,00 EUR relates to preparation of the request for support, which also corresponds to the period when the recipient actually prepared the request for support. Furthermore, in the Statement submitted by the recipient, this invoice was not linked to the preparation of the request for payment.

Therefore, the AA will continue to monitor the implementation of all recommendation issued under this this finding.

Quantification of the financial impact: *This finding has a financial impact of 420,29 EUR (EU contribution) for project with application ID 24-01-3-0049 (Contract reference 09-908/24-22301/34)*

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

AA issued final engagement report on 11th March 2026. Finding remains **open**. AA will follow up actions taken by the auditee and report within AAAR for FY 2026.

Level of importance: <i>Intermediate</i>	Body and area concerned: <i>IPARD Agency</i>
Finding number and title: 3. Deficiencies in IA`s working documents	
Project(s) concerned: n/a	
KAC 1: Appropriate checks to ensure that the applicant fulfils all eligibility criteria of the measure <i>(Article 7(1) of the FA and articles 11(2)(a), 13(1), 18(1)(a), 19 and 43 of the Sectoral Agreement (SA))</i> <i>Components of key control No 1:</i> <i>a) Ensure that compliance with all conditions applicable established by the Agreements, or laid down in relevant national law or in the IPARD III programme can be checked according to a set of verifiable indicators.</i>	
Description of the finding: <i>III. CONTROL ACTIVITIES</i> <i>10. The organisation selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.</i> <i>Characteristics:</i> <i>10.1. Control activities are performed to mitigate the identified risks. They are tailored to the specific activities and risks of each entity and their intensity is proportional to the underlying risks.</i> <i>12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.</i> <i>Characteristics:</i> <i>12.1. Appropriate control procedures ensure that objectives are achieved. The control procedures assign responsibility for control activities to the entity or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.</i> <ul style="list-style-type: none"> • In the IPARD III program it is defined: “Point 8.1 - Withdrawal limit for all measures –Within IPARD III programme, the recipient is not limited by the number of supported projects, but 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.” “Point 8.3.6.14 -Aid intensity and EU contribution rate for Measure 7 –Within IPARD III programme, the recipient is not limited by the number of supported projects, but can receive a total support of maximum EUR 500,000 of public support under this measure, collectively for the programming period of IPARD II programme and IPARD III programme.” During the compliance testing of projects for FY 2025, several deficiencies were identified as follows: <i>DP-UAP-00-07-3 Check list for completeness and compliance for Measure 3 does not contain verification whether public support per recipient does not exceed 3,000,000 EUR under all measures and public calls, collectively for the programming period of IPARD II programme and IPARD III programme. However, it should be emphasized that IA controllers</i> 	

are performing calculation regarding this requirement through annex *DP-UAP-00-18 Authorization table*.

DP-UAP-00-07-7 Check list for completeness and compliance for M7 does not contain verification whether public support per recipient does not exceed 3,000,000 EUR under all measures and public calls, collectively for the programming period of IPARD II programme and IPARD III programme.

This checklist also does not contain verification whether total support regarding one recipient does not exceed 500,000 EUR of public support under measure 7, collectively for the programming period of IPARD II programme and IPARD III programme.

In the *DP-UAP-00-18 Authorization table*, although a row is included for the verification of these criterion under Measure 7, the accompanying instructions that it is not applicable to Measure 7. Furthermore, for the sampled recipients under this Measure, the AA observed that the relevant fields were left blank (i.e. without any response). Therefore, there is no audit trail that these criteria were verified by the IA for recipients under Measure 7.

However, it should be emphasized that AA conducted additional checks and noted that none of recipients under measure 7 exceed prescribed limits.

- *DP-UOSCr-02-02 Check list for on-the-spot verification – before payment M1, M3, M7, M9*, as part of the official version of the procedures, contains, inter alia, checking of visibility requirements (general question No. 10.7.2), as well as Appendix 6, which refers to on the spot verification of accounting for legal entities. During compliance testing, AA identified that checklists used by controllers do not include question related to visibility requirements as well as Appendix 6. AA emphasizes that controllers have indeed checked visibility which is confirmed by the OTSC photos. Additionally, for each legal entity that was in AA's sample, in the documents from OTS, AA found documentation related to accounting.
- The checklist *DP-UPAP-00-07 on Completeness and Eligibility for M3* concerning the recipient with ID No. 24-01-3-0009 (contract ref. 09-908/24-21731/33²²) is not properly fulfilled. Namely, for question No. 48, which requires verification of whether the investment relates to effluent treatment, productive use of waste materials (circular economy), or renewable energy – the controllers marked the answer as 'Irrelevant'. Additionally, in the Scoring table, in the part related to waste handling/water treatment/utilisation of waste products it is stated 0 points.

These answers are incorrect, as recipient carried out an investment directly linked to the circular economy and was correctly granted an additional 10% support on that basis.

Recommendation:

The AA recommends following:

- Unit for Authorisation of Payments (UAP) should update annexes *DP-UAP-00-07-3 Check list for completeness and compliance for M3* and *DP-UAP-00-07-7 Check list for completeness and compliance for M7*, and harmonize them with IPARD III programme to ensure inclusion of questions regarding prescribed limits of public support.

²² At the time of the interim payment, the contract in force was No. 09-908/24-21731/17, whereas at the time of the final payment, the contract in force was No. 09-908/24-21731/33, following the signing of an annex to the contract.

- UAP should update annex *DP-UAP-00-18 Authorization table* with clear instructions regarding calculation of max public support per measure and per all measures. The UAP shall carry out the verification of these criteria and secure the relevant evidence to support the checks. Unit for On-the-spot Control should use the official version of the procedures to prevent similar shortcomings in future work.
- UPAP should fulfill checklists with due diligence especially questions related to additional support in order to safeguard compliance with eligibility criteria.

Auditee's response:

The recommendation has been accepted.

The absence of control questions in the checklist has already been identified, and an exception to the procedures has been prepared. UAP will process it as soon as possible.

UAP will clarify Annex DP-UAP-00-18 (Authorization Table) and ensure that this criterion is properly verified. In addition, special attention will be given to this part of the verification process through additional training.

DOSC - During the translation of the English version of the checklist, these questions were unintentionally omitted, which resulted in the distribution of a version without them. This issue did not occur in other language versions of the document. The checklist has been corrected and the updated official version has been distributed to all controllers for use in future on-the-spot verifications.

UPAP- The recommendation has been accepted.

During supervision, a technical error was identified in completing the DP-UPAP-00-07 checklist for completeness and eligibility for Measure 3, concerning the beneficiary with ID 24-01-3-0009 (contract reference 09-908/24-21731/33). Specifically, question no. 48 in the checklist, which relates to wastewater treatment, productive use of waste materials (circular economy), or renewable energy, was not updated to reflect the correct situation.

It is important to note that this was purely a technical error in the checklist itself, while the assessment of the additional support was correctly performed through the calculation, and the beneficiary was awarded the appropriate 10% additional support. The scoring in this particular call was not required, and therefore the identified error had no impact on the project decision or the implementation of the investment.

The IA acknowledges the oversight and, in the future, will ensure that all checklist questions, especially those related to additional support, are completed correctly to guarantee full compliance with eligibility criteria. Furthermore, in future calls where the scoring process is not necessary, checklists will not be filled in to prevent any risk of technical errors.

Supervision will also ensure that any changes or corrections arising during the supervision process are immediately reflected in the checklists, thereby minimizing the risk of similar technical errors in the future.

Conclusion by the AA:

The implementation of recommendations will be further monitored.

Quantification of the financial impact: N/A

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

AA issued final engagement report on 11th March 2026. Finding remains **open**. AA will follow up actions taken by the auditee and report within AAAR for FY 2026.

Level of importance: <i>Intermediate</i>	Body and area concerned: <i>IPARD Agency</i>
Finding number and title: 4. Lack of request for a delivery note	
Project(s) concerned: n/a	
KAC 9: Adequate verification of all payment requests (Article 11(3) SA)	
<p>Description of the finding: III. CONTROL ACTIVITIES 12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action. Characteristics: 12.1. Appropriate control procedures ensure that objectives are achieved. The control procedures assign responsibility for control activities to the entity or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.</p> <p>During compliance testing for FY 2025, the AA identified that the published public calls under IPARD III programme, as well as IA`s procedures, do not provide for an obligation to submit a delivery note together with the payment request. The AA considers that, in addition to the invoice, bank statement and contract with the supplier, the delivery note constitutes essential supporting evidence to further confirm that investment was implemented within the eligible timeframe, i.e. after signing contract with supplier and prior to submission of the payment request. The AA further considers that the delivery note is of particular importance in cases of interim payments, especially where the IA performs an on-the-spot control only at the stage of final payment.</p>	
<p>Recommendation: The IA shall consider requiring the submission of a delivery note or other relevant document from beneficiaries as an additional supporting document to corroborate the timely implementation of the investment. Accordingly, the IA shall update its procedures by including a control question related to the delivery note and shall ensure that future public calls provide for the obligation to submit a delivery note together with the payment request.</p>	
<p>Auditee's response: The recommendation has been accepted. The exception to the procedures is already being prepared, and this part will therefore be included in the checklist.</p>	
<p>Conclusion by the AA: The implementation of recommendations will be further monitored.</p>	
Quantification of the financial impact: N/A	
<p>Actions taken by the auditee to mitigate the risk that the error is repeated in the future: AA issued final engagement report on 11th March 2026. Finding remains open. AA will follow up actions taken by the auditee and report within AAAR for FY 2026.</p>	

5.8.2 Non-operational transactions

5.8.2.1 Substantive testing of irregularities/debts

According to Guideline No 2, the AA shall perform dual purpose testing, i.e. substantive and compliance testing of irregularities/debts. However, there were no irregularities and debts reported for IPARD III.

No findings.

Assessment:

For IPARD III programme there were no irregularities and debts identified.

However, considering the common management and control system for IPARD II and IPARD III, and the obligation of the IA/AB to follow and report on debt management after the closure of the IPARD II programme, this assessment includes results of assessment for the IPARD II as well. **In point 7.3 (Status of debts for IPARD II), AA explained an incorrect calculation of interest reported in the DL for IPARD II.** Further, in the assessment, the AA took into consideration the status of implementation of findings issued in previous period related to debt management.

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 rate²³ and residual error rate²⁴

The information is presented in section 5.7.1

²³ 'Total error rate' means total errors divided by the population

²⁴ 'Residual error rate' for IPARD is not calculated

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

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 2025, the AA issued 1 finding with financial corrections regarding following recipient:

- Application ID No. 24-01-3-0049 (Contract ref. No. 09-908/24-22301/34) – AA noted that recipient applied, inter alia, for general costs for preparation of the Request for support and for preparation of the Request for payment. Based on the methodology for calculation of general costs presented in DP-UPAP-01 Manual for the Calculation of General Costs, the IA did not approve general costs related to preparation of the Request for support. However, AA noted an invoice no. 122/2024 in the amount EUR 950,00 in which states that it relates to the preparation of Request for support. The invoice is dated September 2024 and it was paid to the consultant company in December 2024. Considering that recipient submitted Request for payment in December 2025, AA considers that amount EUR 475,00 (public support 50% of 950,00) constitutes ineligible support paid to the recipient.
Furthermore, the AA noted that general costs related to the preparation of the payment request were contracted and paid in an amount exceeding 1% of the contracted investment value. Specifically, EUR 4.647,95 was approved by IA for this item, which exceeds the allowable maximum of 1% by EUR 170,77 (contracted investment amount EUR 447.717,98 × 1% = EUR 4.477,18). Therefore, the AA considers that amount of EUR 85,39 (public support 50% of EUR 170,77) constitutes additional ineligible support paid to the recipient.

Since AA conducted random sampling, according to the Guideline, sum of errors classified as random is EUR 420,29 (EU part), while amount of sampling is EUR 1.882.219,61 (EUR part). Accordingly, error rate is 0,02%, which is below the materiality level. AA conducted substantive testing on 4 operations (20% of 18). These 4 operations were subject to compliance testing as well, i.e. subject to dual purpose testing. AA conducted comprehensive administrative and on the spot verifications for sampled operations, and confirmed that the management and control system put in place functions properly. AA did not identify any error as result of test of controls on 6 transactions which were included in compliance testing only.

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 2025.

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 as result of audit of operations.

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

AAAR	Finding	Follow-up February 2026
Findings and recommendations identified during audit of operational transactions from final reports issued on 1st November 2024 – 3011-2-06-677 including relevant management response		
<p>1.</p> <p>Refer to Audit of operations Final report (1/11/2024)</p> <p>4.1.1</p>	<p>Control deficiency and irregularity with suspicion on fraud regarding application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43)</p> <p>Level of priority: Major Body/-ies concerned by the finding: IPARD Agency/NAO</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>2. (c) Fraud risk</i></p> <ul style="list-style-type: none"> – <i>ensuring that potential for fraud and irregularities is considered when assessing risks to the achievement of objectives,</i> – <i>ensuring that irregularities noted lower down in the organisation are reported appropriately and followed-up, including protection for "whistle-blowers"</i> <p>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 items²⁵: <i>Feeding and drinking system, Microcontroller computers, Items for equipping the farm, Transporter for waste management, Scales and Mechanization.</i></p> <p>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.</p> <p>Since the recipient has applied 6 times for IPARD funds, including IPARD Like (5 approved projects</p>	<p>Open</p> <p>AA identified that Conclusion on established irregularity with suspicion on fraud has been prepared on 11th November 2024. However, Decision on recovery of funds has not been issued yet and accordingly the recipient has not been entered in Debtor`s ledger.</p> <p>Based on IA`s reply, colleagues from the Division for On-the-Spot Control and the Division for authorization of Payments have been summoned and heard by the competent Basic State Prosecutor`s Office. However, as of now, no feedback or information has been received regarding the decision in the initiated procedure by the prosecutor.</p>

²⁵ Following the invitations for offers

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

	<p>number 5 from September 2021, photos before contracting²⁶ (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.</p> <p>Furthermore, Medicator 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.</p> <p>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.</p> <ul style="list-style-type: none"> - Recipient applied for procurement of a transporter for waste management (<i>amount of public support 4.452,50 EUR without VAT</i>). 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. Additionally, the perceived 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). 	
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²⁶ Phrases OTSC before contracting and OTSC before payment refer to sampled project, i.e. Fourth public call, Measure 1

	<ul style="list-style-type: none"> - Recipient applied for procurement of four wardrobes for workers (<i>total amount of public support 936,00 EUR without VAT</i>). 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 (<i>total amount of public support 587,86 EUR without VAT</i>). 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 (<i>amount of public support 637,00 EUR without VAT</i>). 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 (<i>amount of public support 364,00 EUR without VAT</i>). 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 (<i>total amount of public support 552,00 EUR without VAT</i>). 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, 	
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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.

	<p>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.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> - 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. 	
Findings and recommendations identified during audit of operational transactions from final report issued on 25th December 2024 - No. 3011-2-06-816 including relevant management response		
1. Refer to Audit of operations	Deficiencies related to Recipient under application ID No. 21-01-7.1-0002, Contract no. 09-908/21-11797/39 Level of priority: Major Body/-ies concerned by the finding: IPARD Agency	Closed

<p>Final report (25/12/2024)</p> <p>4.1.3</p>	<p>ICF 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</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"> - According to the signed Contract, among others, recipient applied for purchase of item “Procurement, transport and installation of a universal shower measuring 100x100cm, shower 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. <p>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</p>	<p>Audit Authority confirms that amount of 324,73 EUR has been recovered and credited to the IPARD Euro Account on 18th of March 2025. Bank statement is attached below:</p> <div style="display: flex; justify-content: space-around; align-items: center;">   </div> <p>izvod 18032025.pdf Irotas - recovery.jpg</p> <p>Taking into account these facts, this finding is considered as closed.</p>
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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:



600,00 EUR (value of shower cabin) x 65% (support) = 390,00 (amount of public support)

66,12 EUR (value of 1 piece of bedside table) x 65% (support)= 42,97 EUR (amount of public support)

- 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.

- IA's advisors should assign expenditure codes with due diligence in order to avoid deficiencies with potential financial impacts.

- According to the Exception of procedures approved by the NAO on 11th March 2024, in case of underpayments, the amount to be paid to the recipient shall be financed from national funds.

	<p>Therefore, the AA recommends the IA to act in accordance with the adopted exception of procedures. Calculation of underpayment is presented below: 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>Findings and recommendations identified during audit of operational transactions from final report issued on 11th March 2025 – No. 3011-02-06-152 including relevant management response</p>		
<p>Refer to Audit of operations Final report</p> <p>4.1.1</p>	<p>Administrative error related to Recipient under application ID No. 21-01-7.1-0013, Contract no. 09-908/21-11938/40</p> <p>Level of priority: Major Body/-ies concerned by the finding: IPARD Agency</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>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 373,76€.</p> <p>Recommendation</p> <p>The AA recommends following:</p> <ul style="list-style-type: none"> The IPARD Agency should promptly return to the EU budget funds in amount of public support 242,94 EUR (EU part 182,21 EUR and national part 60,73 EUR) <p>Calculation is presented below:</p>	<p>Closed</p> <p>Amount of 182,21 EUR was recovered and credited to the IPARD Euro Account on 5th of May 2025. Bank statement is attached bellow:</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  Izvod_Bojan Bozovic.pdf </div> <div style="text-align: center;">  Uplatice Bojan Bozovic.pdf </div> </div> <p>Taking into account these facts, this finding is considered as closed.</p>

	<p>973,28 EUR (Approved amount by IPARD Agency for group of works where lawn installation is included) – 599,52 EUR (Amount calculated without lawn installation) = 373,76 EUR x 65% (support) = 242,94 EUR (amount of public support)</p>	
<p>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</p>		
<p>1. Refer to Audit of operations Final report (11/03/2024) 4.1.1</p>	<p>Undefined procedure related to VAT exemption in specific situations Level of priority: Major Body/-ies concerned by the finding: NAO/ IPARD Agency <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</p>	<p>Open</p> <p>AA notes that the MS has initiated the communication with Directorate of the Ministry of finance in charge for area of VAT (mail from 02/10/2025). Further communication and improvement will be followed and reported on in the AAAR for the following year.</p>

defined in the contract with IA or equal to the amount that will be accepted and paid by the IA after the investment is completed.

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

a. the amount of the offer for which exemption from VAT was requested and approved (EUR 29,247.70) was higher than the amount of eligible costs under the contract with IA (EUR 28,898.84), difference EUR 348.86, for which recipient received exemption from VAT even though this part was not accepted as eligible cost according to the contract

b. the amount of offers for which exemption from VAT was requested and approved (EUR 84,075.62) was greater than the amount of eligible costs that was approved and paid to the recipient by IA after the investment was completed (EUR 82,477.71), difference EUR 1,597.91, for which recipient received exemption from VAT even though IA did not accept this part as eligible to be paid According to IA Manual of procedures, Annex DP-DPAP-00-20 Contract for allocation of funds, Article 8, point 39) states In the event of an unacceptable invoice, the recipient will pay value added tax for that invoice in comply with the law.

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

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

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

Interpreting mentioned article from Fwa and that according to the IPARD II programme general costs can be eligible retroactively (since they may occur before contract conclusion), AA considers

	<p>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.</p> <p>The AA recommends following:</p> <ul style="list-style-type: none"> - To define procedure and steps for exemption from VAT in situations where inconsistencies occurred between the invoiced and the contracted or paid amount by IA, in order to VAT exemption rule apply in accordance with all positive regulations. - To update Annex DP-DPAP-00-20 Contract for allocation of funds, Article 8, point 39 with “or unacceptable amounts from the invoice“. - NAO/IA in cooperation with institutions relevant for tax system should find a solution to provide the recipients right to obtain a VAT exemption through refund, when ex-ante VAT exemption is not technically and/or practically feasible, in accordance with Article 28 of the FwA <p>AA reply 2025:</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>	
<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>		
<p>1.</p> <p>Refer to Audit of operations Final report (24/01/2024)</p> <p>4.1.1</p>	<p>Inadequate assessment of reasonableness of prices by Evaluation Committee regarding application ID 22-04-3-0003, Contract reference 09-908/22-3210/29</p> <p>Level of priority: Major</p> <p>Body/-ies concerned by the finding: IPARD Agency</p> <p><i>ICF requirement 3 (a) Selection and development of control activities ensuring that the control activities include, inter alia, the following:</i></p> <p><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></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>Open</p> <p>Recipient filed a lawsuit and didn't recover the requested amount.</p> <p>AA notes that amount of 2.743,80 EUR regarding recipient with ID No. 22-04-3-0003 (Contract ref. No. 09-908/22-3210/29), was not credited to the IPARD Euro account.</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.

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".

During administrative verification, AA identified inadequate assessment of reasonableness of prices by Evaluation Committee (hereinafter: EvC) for certain items.

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.

Among others, the recipient has applied for following items with offered prices (excl. VAT):

1. Generator CAJN 45-19Z SFERA with Rivacold evaporator RSI3250ED – 3.050,00 EUR
2. Generator CAJN 45-19Z SFERA with Rivacold dual flow evaporator RDF3250 – 3.050,00 EUR
3. Generator DANFOSS with 2 pieces of Rivacold dual flow RDF 4250 evaporators – 7.152,00 EUR
4. Knee operated sink, 480*340*480 mm – 425,00 EUR.

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:

	<p>1. Generator CAJN 45-19Z SFERA 576,00 EUR + Evaporator Rivacold RSI3250ED 573,00 EUR = 1.149,00 EUR</p> <p>2. Generator CAJN 45-19Z SFERA 576,00 EUR + Rivacold dual flow evaporator RDF3250 551,00 EUR = 1.127,00 EUR</p> <p>□ 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".</p> <p>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:</p> <p>3. Generator DANFOSS MLZ038 1.889,00 EUR + Rivacold dual flow RDF 4250 evaporators (2 pieces) 696,00 EUR * 2 = 3.281,00 EUR</p> <p>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.</p> <p>□ 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.</p> <p>AA determined average price of 225,00 EUR for knee operated sinks even of larger dimensions than those what recipient requested and purchased.</p> <p>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> <p>The AA recommends the following:</p> <ul style="list-style-type: none"> - 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). <p>Calculation is presented below:</p>	
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	<p>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> <p>- 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.</p> <p>AA reply AAAR 2024:</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>	
<p>Findings and recommendations identified during audit of operational transactions from final reports issued on 10th November 2023 – No. 3011-2-06-521 including relevant management response</p>		
<p>2.</p> <p>Refer to Audit of operations Final report (10/11/2023)</p> <p>4.1.3</p>	<p>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)</p> <p>Level of priority: Intermediate</p> <p>Body/-ies concerned by the finding: IPARD Agency</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>ICF requirement 2. (c) ensuring that irregularities noted lower down in the organisation are reported appropriately and followed-up, including protection for "whistle-blowers".</p>	<p>Open</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.</p>

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

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

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





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

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

Bearing in mind the fact that it was purchased item from another manufacturer and not the one which was stated in the relevant documents (supplier's offer, contract between recipient and supplier, invoice, traffic license), it is necessary to monitor similar cases with due diligence especially when it comes to the above-mentioned supplier. Therefore, such cases should be treated as irregularities.

Taking into account that IA had checked market price of the trailer from Tan agro manufacturer and in accordance with that, accepted price reduced by 12%, this case should have been recorded as irregularity without financial impact. This further implies that in described situation, employees of the Division for Authorization of Payments did not follow prescribed steps in MoP of preventing, detecting

	<p>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".</p> <p>Additionally, treating such cases as irregularities would also facilitate the monitoring process of suppliers involved in it.</p> <p>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.</p> <p>AA reply January 2024: Remains open</p> <p>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> <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>AA Reply AAAR 2024 Open</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>	
<p>Findings and recommendations identified during audit of operational transactions from final reports issued on 10th February 2021 – No. 3011-2-06-87</p>		
<p>1.</p>	<p>Unequal approach of the evaluation committee Body/-ies concerned: IPARD Agency</p>	<p>Closed</p>

<p>Refer to Audit of operations Final report (10/02/2021)</p> <p>4.1.2</p>	<p>Level of priority: Major</p> <p>ICF requirement 3. (a)(v) Payment procedures, including procedures for confirmation of output delivery, and/or eligibility conditions, „on-the-spot“ where necessary, ensuring that payments are made only for justified payment requests, which fulfil all contractual requirements.</p> <p>According to Art. 29 of the Decree, Verification of the reality and reasonableness of prices presented in the Request for support, shall be performed on the basis of:</p> <ol style="list-style-type: none"> 1) reference price database and or 2) comparisons of different offers; and or 3) evaluations of the evaluation committee. <p>During administrative verification of recipient under application ID no 18-01-1-0303, we have identified unequal approach in the work of the evaluation committee (hereinafter EC) related to the verification of reasonableness of prices. Namely, among other items, the recipient has applied for construction of a photovoltaic system (solar panels) and submitted an offer from company “BB Solar” LLC . The IA requested EC’s opinion on the reality of “BB Solar” LLC offer prices in April 23th, 2019 and received the opinion that the prices offered were realistic without any documented market research. On June 11th, 2019, after changes occurred during processing of application, for the second time the IA requested opinion of the EC on the reality of the amended offer prices and received the same answer that the prices are realistic without any document confirming the given opinion. After signing the contract between recipient and IA, the recipient requested a change in the type of contracted items for construction of solar panels, which was approved by Annex 1. Accordingly, the IA requested a new opinion from the EC on November 18th, 2019 about the reality and reasonableness of the offered prices in line with approved changes. Based on the documentation from the IA, for the first time the EC researched the market for some items from the “BB Solar” LLC offer and gave the opinion that the prices are realistic. However, based on EC offer analysis, the AA identified that the price of the grid inverter (2.480,00€ without VAT) is not realistic because the price is for 583.43€ higher than the price obtained by market research, i.e. the average price (1.896,56€). In the opinion of the EC it is stated that although the price of this item is not realistic, it can be accepted as realistic because the difference (583,43€) makes only 3% of the total offer and that it is an equipment of a reputable manufacturer. On the other side, within the same case file price for part of equipment “AMK 127 mulching kit” produced by reputable manufacture “Stihl” is not accepted as realistic because the offered price is more than 30 % higher than the average price 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</p>	<p>In Letter PRE/2021/001/ME/FIL – Ares (2024) 4170287 – 10/6/2024 DG AGRI stated that amount of EUR 2 102.24 represents a risk to the Fund and was maintained in the error calculation. Further, European Commission issued a Debit note for recovery of total amount of EUR 83 801.74 for accounts of FY 2020, which includes inter alia this amount.</p> <p>Based on that, requested amount was recovered from state budget on 24/12/2025. Enclosed is Swift report as proof of recovery, as well as e-mail communication where EUD/EC was informed by the MS on recovery made:</p> <div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;">  <p>Debit note.pdf</p> </div> <div style="text-align: center;">  <p>EC letter.pdf</p> </div> <div style="text-align: center;">  <p>Swift report.jpg</p> </div> </div> <div style="text-align: center; margin-top: 20px;">  <p>Email communication.jpg</p> </div>
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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.

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:

	<p>Remains open</p> <p>The AA had insight into EVC's minutes for work and determined certain improvements regarding EVC's procedures, but these improvements are not relevant for this finding considering that EVC assessed this project much earlier than the EVC minutes (attached within reply) were adopted.</p> <p>In addition, the AA's assessment of deficiency regarding determination of the reasonableness of prices for the construction of the photovoltaic system, remains the same. Therefore, in line with Article 5, point 6 (f) of the Contract, the AA recommends the IPARD Agency to initiate recovery of funds related to construction of photovoltaic system in amount of 2.802,98€ which presents total public contribution out of which 2.102,24€ is EU part and 700,74€ national part.</p> <p>AA reply 2024:</p> <p>Remains open</p> <p>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.</p> <p>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.</p> <p>The implementation of the recommendation will be further monitored.</p> <p>AA reply AAAR 2024:</p> <p>Open</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.</p> <p>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.</p> <p>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</p> <p>Having in mind closure of IPARD II programme, implementation of the recommendation will be monitored through Audit Authority activities for IPARD III.</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.

In FY 2025, IA declared a total of 36 payments, all related to measures M3, M7.1 and M7.2. With regard to Measure 1, the processing of applications is ongoing, along with the additional requirement to carry out the ranking procedure. Although there was no de-commitment of funds and public calls were launched for each measure, resulting in a significant number of applications, AA considers that there is a delay in the absorption of funds. Furthermore, AA has already noted in Section 4.4 that delays in the contracting process are further slowing down fund absorption.

When it comes to the audit's conclusions, 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"²⁷, as presented in sections 4.4 as well as 5.8 of this Report.

The AA's sample for substantive testing covered 4 transactions (20% from the sum of final and interim payments), while for 10 transactions AA conducted tests of controls. As a result of audit work, 2 deficiencies (an irregularity and an administrative error) with financial impact were identified in total amount of 420,29 EUR. For each identified deficiency, AA assessed the level of importance, quantified the financial impact 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 deficiencies identified and related financial errors, relevant provisions of the Sectoral and Framework Agreement should be followed in the efficient manner.

Considering expenditures in amount of 3.333.360,37 EUR, error amount is significantly below the level of materiality, i.e. error rate is 0,02 % and leads to overall conclusion that the controls are functioning properly.

²⁷ Considering the common management and control system, assessment includes results of assessment for the IPARD II as well.

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

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

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

List of AA team members involved in audit of annual accounts 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	13 years and 9 months	12 years and 9 months	P	Certified auditor/ State auditor	All listed members were involved in the preparation of this Report
	Marko Tomčić	Authorized Auditor	7 years and 11 months	7 years and 11 months	P	Certified auditor/ State auditor	
	Maja Klikovac	Authorized Auditor	5 years and 5 months	5 years and 5 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

Audit of accounts was carried out in line with the Audit Strategy 2025-2027 for IPARD III and Audit Authority's manual of procedures v.1.3 (adopted in January 2026).

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

The audit of accounts was focused primarily on the information in the financial reports submitted by the NAO on 13th February 2026, taking into consideration quarterly declarations of expenditure submitted to

the European Commission for the financial year 2025 (in July, October 2025 and January 2026) as well as accounting records and other information received from the AB and IPARD Agency.

The IPARD 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 III programme, showing Union, national and total revenues and expenditure summarised by measures and presented on an annual basis;
- b) Table of differences by IPARD III 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/AB and IA;
- Compliance with formal requirements as well as compliance with quarterly reports and other records and data held by the NAO / AB and 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 2025 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 the finding below.

Level of importance: <i>Intermediate</i>	Body and area concerned: <i>NAO/ AB / IPARD Agency</i>
Finding number and title: <i>1. Deficiencies in content of annual financial reports</i>	
<p>AC 1. Adequate supervision procedures</p> <p>Components of ancillary control No 1</p> <p>a) ensure adequate supervision for authorising, paying or accounting sums (Annex B, section III (10.2 and 10.3) FFFPA).</p>	

Description of the finding:

ICF III Control activities

12. The organisation deploys control activities through corporate policies that establish what is expected and in procedures that put policies into action.

Characteristics:

12.1. *Appropriate control procedures ensure that objectives are achieved.* The control procedures assign responsibility for control activities to the entity or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.

According to the **Sectoral Agreement, Article 47** Content of the Annual accounts:

The annual accounts, composed of the annual financial reports and statement referred to in Article 61(2)(a) of the FFPA shall include:

(a) the revenues and the expenditure of the IPARD III programme, showing Union, national and total revenues and expenditure summarized 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 III 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 39 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.

During audit of accounts for FY 2025, the AA auditors identified following deficiencies within financial reports which were sent to the EC on 13th February 2026:

- *According to Guideline No 5 IPARD Annual Accounts, Annex 6, footnote 19, in first paragraph of form D2 - Annual declaration of accounts for financial year (...), IPA beneficiary should state the total gross amount of public IPARD III expenditure (EU + national) made in the financial year considered to be legal and regular by the NAO.*
Form D2 - Annual declaration of accounts for financial year 2025, issued by the NAO, in its first paragraph does not reflect the correct information on the total gross amount of public IPARD III expenditure (EU + national). Instead of EUR 6,972,144.97, the stated amount is EUR 5,229,108.68, which represents only the EU share of expenditures.
- *According to Guideline No 5 IPARD Annual Accounts, Annex 6 should be signed by Head of the Accounting Body, Accountant of the Accounting Body as well as NAO.*
Form D2 - Annual declaration of accounts for financial year 2025, was indeed signed by authorized persons from Accounting Body. However, below their signatures they are indicated as

representatives of the National Fund instead of the Accounting Body, which is the correct designation of the authority established by the Financial Framework Partnership Agreement.

- According to Guideline No 5 IPARD Annual Accounts, point 2.4.2, template of Annual Management Declaration is defined in the Annex 6 to the SA III and should not be modified. However, in form D2 - Annual declaration of accounts for financial year 2025, issued by the IPARD Agency, measure "Improvement of training" is indicated instead of IPARD III measure "Improvement of skills and competences". Furthermore, the submitted form does not include "Financial Instruments" and "Promotion of cooperation for innovation and knowledge transfer".
- According to Guideline No 5 IPARD Annual Accounts, point 2.4.2, in the row „Total amount of outstanding debt at 31.12. (YEAR)“ of Annual Management Declaration, IPA beneficiary should state the amount of EU principal part of debts outstanding on 31/12/N, 24:00. However, in form D2 - Annual declaration of accounts for financial year 2025, issued by the IPARD Agency, no information is provided in this row. Although there were no debts as at 31 December 2025, the correct figure of 0,00 should have been entered.
- The *List of all payments* does not accurately reflect the number of days elapsed between the receipt of the payment request and the issuance of the payment order for seven transactions. Namely, AA identified that incorrect formula was applied for seven transactions in the Excel document which was submitted to the EC in 13th February and thus resulting in a wrong information. It should be emphasized, that no payment exceeded the six-month deadline for execution.
- In the *List of all payments*, columns No. 6 and No. 7 are labelled as 'NF IPARD III EURO Account' instead of 'Accounting Body IPARD III EURO Account', which is in accordance with the prescribed form in Annex 9 to the Sectoral Agreement.

Recommendation:

The AA recommends following:

- Annual financial reports, should be fulfilled with due diligence, in order to provide correct information in prescribed templates for the financial year in question.

Auditees' response:

- According to Guideline No 5 IPARD Annual Accounts, Annex 6, footnote 19, in first paragraph of form D2 - Annual declaration of accounts for financial year (...), IPA beneficiary should state the total gross amount of public IPARD III expenditure (EU + national) made in the financial year considered to be legal and regular by the NAO.

DMS reply: Recommendation accepted. Technical oversight occurred which resulted in only the EU part of expenditure being indicated. Respectively, Annual declaration of accounts for 2025 will be revised and submitted to EC. Nevertheless, in the following period special attention will be given to the AA findings and recommendation, as well as EC Guidance, in order to prevent similar situation.

- According to Guideline No 5 IPARD Annual Accounts, Annex 6 should be signed by Head of the Accounting Body, Accountant of the Accounting Body as well as NAO.

DMS reply: Recommendation accepted. Although we consider this finding/recommendation as non-substantial, bearing in mind that Accounting body is term related to the IPA III programmes, however National fund is generally accepted term and it is not mistake as such to use it. However, Annual declaration of accounts for 2025 will be revised and submitted to EC. Nevertheless, in the following period special attention will be given to these technical issues.

- According to Guideline No 5 IPARD Annual Accounts, point 2.4.2, template of Annual Management Declaration is defined in the Annex 6 to the SA III and should not be modified.

IPARD agency reply: Recommendation accepted. As the report is generated from the software rather than completed manually, the previous name of the measure remained in the system. A request has been submitted to the programmer to correct this.

It should be noted that as per SA and Guidance No. 5 this report is called "FORM D 2 - ANNUAL DECLARATION OF ACCOUNTS FOR FINANCIAL YEAR (YEAR)" and in the text of above it is called "Annual Management Declaration".

- According to Guideline No 5 IPARD Annual Accounts, point 2.4.2, in the row „Total amount of outstanding debt at 31.12. (YEAR)“ of Annual Management Declaration, IPA beneficiary should state the amount of EU principal part of debts outstanding on 31/12/N, 24:00.

IPARD agency reply: Recommendation not accepted. As the report is generated from the software, fields for which no data have been recorded are not displayed as zero values. The same applies to measures that have not been accredited. Additionally, this data is not recorded in accounting books, it is obtained from Accounting Body.

It should be noted that as per SA and Guidance No. 5 this report is called "FORM D 2 - ANNUAL DECLARATION OF ACCOUNTS FOR FINANCIAL YEAR (YEAR)" and in the text of above it is called "Annual Management Declaration".

- The *List of all payments* does not accurately reflect the number of days elapsed between the receipt of the payment request and the issuance of the payment order for seven transactions. Namely, AA identified that incorrect formula was applied for seven transactions in the Excel document which was submitted to the EC in 13th February and thus resulting in a wrong information. It should be emphasized, that no payment exceeded the six-month deadline for execution.

IPARD agency reply: Recommendation partially accepted. Technical oversight occurred which resulted in incorrect number of days elapsed between the receipt of the payment request. Correct version of the List of all payments will be prepared and submitted to EC together with revised NAO D2 report. As for the recommendation that it should be emphasized that no payment exceeded the six-month deadline, the recommendation is not accepted because the *Comments* column is used to highlight cases only when the six-month deadline is exceeded.

- In the *List of all payments*, columns No. 6 and No. 7 are labelled as 'NF IPARD III EURO Account' instead of 'Accounting Body IPARD III EURO Account', which is in accordance with the prescribed form in Annex 9 to the Sectoral Agreement.

IPARD agency reply: Recommendation not accepted. Name of the IPA account opened in Central bank is fixed and no changes in name respecting different terminology can be done. Thus, all accounts are named MF-NF etc. There is no added value to change it through List of all payments.

Conclusion by AA:

Regarding the responses to the last three identified deficiencies, AA notes the following:

- Taking into account previous period, AA noted that in years when there were no outstanding debts (such as FY 2019, 2022, 2023), form D2 – *Annual declaration of accounts* showed the figure 0,00. Therefore, AA does not agree with IA's response. Furthermore, IA stated that for fields which have no recorded data could not be displayed as zero values, but the last row (*Out of which interest accrued during the year*) in form D2 - *Annual declaration of accounts for financial year 2025* figure 0,00 is presented even though Montenegro is not using possibility of earning interest on IPARD Euro Account.
- Sentence „It should be emphasized, that no payment exceeded the six-month deadline for execution.“ in the finding does not reflect recommendation to the IA, but rather emphasizes the

<p>fact that based on AA check no payment exceeded the required six-month deadline for payment and therefore there is no need for comments in the <i>Comments</i> column.</p> <ul style="list-style-type: none"> AA acknowledges that there is no added value in changing the name in the <i>List of Payments</i> when the account name is unchangeable. However, in future work, attention should be paid while preparing documents and defining terms in order to ensure alignment with the prescribed annexes from the EU regulation. <p>The implementation of recommendations will be further monitored.</p>
<p>Quantification of the financial impact: N/A</p>
<p>AA follow up status: <u>Open</u>.</p> <p>The implementation of the recommendation will be further monitored.</p>

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 systemic nature during audit of accounts.

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 2025, the AA did not detect any case of suspicious of fraud. As regards the status of the case from previous year (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)), information is presented in the point 5.13 of this Report.

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

Based on communication with the IPARD bodies and received evidence there is no information regarding subsequent events occurred after the end of the financial year.

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 15th February of the following FY, the NAO shall, with a copy to the NIPAC and the AA, provide the Commission with an Annual Management Declaration per programme drawn up in accordance with Annex C of the FFPA covering:

- the overall responsibility for the financial management of EU funds and for the legality and regularity of the underlying transactions;
- the responsibility for the effective functioning of the management and internal control systems under IPA;
- 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 2025 submitted by NAO to EC no. 08-908/26-4178 on 13th February of 2026, the NAO declared that:

- 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 III is subject of reservation regarding to:

- **Control environment** – management establishes structure, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives – weaknesses identified regarding institutional setup due to establishment of Agency for payments in Agriculture Rural Development and Fishery.;
- **Control environment** – the senior management exercises oversight of the development and performance of internal control – weakness identified in completion of legal base due to reorganisation of the OS for implementation of IPARD III programme.;
- **Information and communication** – the organisation internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control – weaknesses identified regarding operability of realisation of the tasks within proper interconnectivity and communication within all units/sectors/division within Agency and interoperability between bodies constituting OS IPARD III as crucial for proper functioning of the established ICF;
- **Information and communication** – the organisation internally communicate information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control – breaching of the IPARD Internal Control Framework occurred within MA, due to appointment of the coordinator of the level of state secretary in temporary absence of the Director General. Moreover, daily communication often excludes cooperation with the Directorate for Rural Development when it comes to the important decision processes on the level of top management of MAFWM.;
- **Control environment** – the organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives – weakness identified regarding strengthening staffing capacities within both, Agency for payments in Agriculture, Rural Development and Fishery and IPARD MA as crucial activity to ensure effectiveness and efficiency of the implementation of IPARD III programme.

NAO has issued Action plan on reservations. The action plan includes steps that the institutions must take to resolve the situation, as well as the deadlines.

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

- Annex A - Information on institutional/key functional set up within IPARD III structures during 2025
- Annex B – Overview of the key audit findings and recommendations issued in 2025 (Finding status on January 31st 2026)
- Annex C - Overview of the results of Key Risks Indicators' measurement in 2025
- Annex D - Overview of the results of KPI measurement
- Annex E – Overview of Irregularity Reports in 2025 under IPARD III Programme (Based on measurement of the NAOSO)
- Annex F – Overview of risks treated in the IPARD OS in the 2025
- Annex G - Staff overview table
- Annex H – Changes in the management and control system
- Annex Ia – Register of exceptions proposed by NAO/MS
- Annex Ib - Register of Exceptions proposed by IPA Bodies
- Annex J – HR, Follow up and Disbursement 2025 and Disbursement 2026
- Annex K – Draft NAO Dynamic Plan and
- Action Plan on NAO reservations from Annual Management Declaration process for the year 2025 for DG AGRI review and acceptance IPARD III Programme.

By verifying AMD and supporting documents for IPARD III programme, the AA issued the following finding:

Level of importance: <i>Minor</i>	Body and area concerned: NAO / NAOSO
Finding number and title: 1. Non-compliance of Annual Management Declaration with FFPA template	
KAC: n/a	
Description of the finding: ICF V Monitoring activities 16. The organisation selects, develops, and performs ongoing or specific assessments to ascertain whether the components of internal control are present and functioning. Characteristics: 16.1. <i>Continuous and specific assessments.</i> The entities continuously monitor the performance of the internal control system with tools that make it possible to identify internal control deficiencies, register and assess the results of controls, and control deviations and exceptions. Ongoing assessments are built into business processes and adjusted to changing conditions. In addition,	

when necessary, the entities carry out specific assessments and internal audit, taking into account changes in the control environment.

*According to the **Financial Framework Partnership Agreement**, Article 61 (d) By 15 February of each year, the NAO shall, with copy to the NIPAC and the Audit Authority, provide the Commission with the following information for the previous financial year: an annual management declaration per programme, drawn up in accordance with Annex C.*

Annex C of the Financial Framework Partnership Agreement clearly defines form of Annual Management Declaration (hereinafter: AMD). However, during review of this document submitted on 13th February 2026, the AA identified that the issued declaration does not fully follow the content of initial part of declaration outlined in the FFWA. Namely, the initial part of the form has been partially taken from Annex C of the FWA that was relevant to the IPARD II Program, instead of the form from Annex C of FFWA which is relevant for the IPARD III Program.

Furthermore, within the AMD, the NAO issued reservations and designated the bodies responsible for implementing corrective measures. However, for reservations regarding weaknesses in IA's internal and external communication and weaknesses in strengthening IA and MA staffing capacities, the bodies identified in the action plan are not consistent with those specified in the AMD.

Recommendation:

The AA recommends following:

- NAO/NAOSO should use adequate form of AMD prescribed in the Annex C of the FFWA, ensuring that all sections of the form strictly align with the prescribed format for the IPARD III Program.
- NAO/NAOSO should ensure that the action plans are fully aligned with the AMD, so that the bodies responsible for implementing corrective measures are consistently and unambiguously identified in both documents. This will prevent confusion in the implementation of measures and facilitate effective monitoring of the NAO's recommendations.

Auditees' response:

DMS reply: Recommendation partially accepted.

Bearing in mind that the process of preparation of the Annual Management Declaration includes comprehensive analyses, with the aim of providing the proper information to the respective institutions, certain omissions have occurred within the reporting process in relation to issued declaration for the year 2025.

When it comes to the part of recommendation referring to the statement that issued declaration did not fully follow the content of the Annex C of the FFWA, it should be emphasized that the content outlined within the issued declaration is aligned with the content prescribed by the Annex C, as well as with the annex prescribed by the Manual of procedures for rural development programme, version 1.0. By reviewing the prepared declaration and supporting documentation, MS noticed the mistake occurred in the title of the statement, where Annex C of the FFWA prescribes the name 'Model for the management declaration', while the Annex 1 AMD by NAO prescribed by the MoP foresee the title 'Annual Management Declaration'. As a conclusion to the above explanation, discrepancy occurred only in the title of the declaration, and not using any part of the content of the relevant annex from FWA (IPA II). In that regard, MS will align the annex prescribed by the MoP with the referent Annex from the FFWA, within the new version of the MoP for MS IPARD III which is under preparation. As for the part of the finding related to inconsistency within Action plan and reservations for the IPARD III programme and AMD issued reservations related to designated responsible authorities for

implementing corrective measures, it should be stated that inconsistency resulted from a technical mistake occurred during reviewing and preparation of the relevant annexes. This inconsistency does not affect the implementation of the corrective measures nor the responsibilities of the institutions involved in their implementation, bearing in mind that MS continuously perform activities related to monitoring and supervision of the performance of the entire system of management and internal control for IPARD III OS, and thus ensure the proper implementation and monitoring of NAO reservations issued.

In order to address this issue properly, additional verification steps will be introduced by MS during the preparation and review of future Annual management declarations and relevant Action plan.

Conclusion by AA:

The finding is related to the first paragraph of the AMD where it is stated: *"...based on my own judgment and all information available to me, including the results from my direct supervision and the work of the internal audit, also from audits and controls in relation to the expenditure included in the annual accounts, annual financial reports and statements for the financial year 2025..."* instead of wording prescribed by Annex C to the FFPA: *"...based on my own judgment and on all information available to me, including the results from management verifications, and from audits in relation to the expenditure included in the annual accounts, annual financial reports and statements for the financial year 2025..."*. Therefore, finding is not related to the title of the AMD. Additionally, there is no need to change the procedures, since the template of the AMD is aligned with the Annex C to the FFPA.

The implementation of recommendation will be further monitored.

Quantification of the financial impact: N/A

AA follow up status: Open.

The implementation of the recommendation will be further monitored.

In general, after performed verifications, the AA confirmed the following:

- The Annual Management declaration was submitted according to the article 61 (2) d) and Annex C of the FFPA, except of finding presented above
- 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 2025 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 February 2026
Findings and recommendations identified during audit of accounts from final reports issued on 13th March 2025 – No. 01-908/25-161 including relevant management response (IPARD III)		
<p>1.</p> <p>Refer to Audit of accounts Final report (13/3/2025)</p> <p>4.1.1</p>	<p>Deficiencies in the issued AMD for IPARD II and IPARD III programme</p> <p>Level of priority: Intermediate Body/ies concerned by the finding: NAO / NAOSO</p> <p>(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. 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 23rd2024, 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</p>	<p>Closed</p> <p>AA notes that reservations from AMD were included in the action plans. Furthermore, information about NIPAC office was included in the NAO assessment report but not as part of the Operating Structure. Based on these, AA considers the finding closed.</p>

	<p>Ipard Agency and Managing Authority, i.e. Nipac office is not relevant for IPARD Programme. The same situation is for IPARD III programme.</p> <p>- 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.</p> <p>Recommendation:</p> <p>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.</p>	
<p>2.</p> <p>Refer to Audit of accounts Final report (13/3/2025)</p> <p>4.1.2</p>	<p>Deficiency in compiling Balance sheet</p> <p>II. RISK ASSESSMENT - 6.5. <i>Financial reporting objectives</i>. Financial reporting objectives are consistent with the accounting principles required by the Commission.</p> <p><i>Level of priority: Intermediate</i> <i>Body/-ies concerned by the finding: IPARD Agency</i></p> <p>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.</p> <p>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.</p> <p>Recommendation:</p> <p>The AA recommends following:</p> <ul style="list-style-type: none"> Financial reports should be prepared with due diligence, respecting international accounting standards and generally accepted practice. 	<p>Closed</p> <p>Since the closing balances of accounts 91 and 96 in the Balance Sheet for FY 2025 present correct amounts, this finding is considered closed.</p>
<p>Findings and recommendations identified during audit of accounts from final report issued on 4th March 2021 – No. 3011-3-06-123</p>		
<p>1.</p> <p>Refer to Audit of accounts Final report (04/03/2021)</p>	<p>Shortcomings in compiling the Balance Sheet</p> <p>Body/-ies concerned: NAO/AB Level of priority: Intermediate</p>	<p>Open</p> <p>Based on the AB reply, AA notes that the tender for development new Information system has been launched. AB also stated that at the moment of development of new Information system for recording of</p>

<p>4.1.1</p>	<p>ICF requirement 3. (a)(ix) Accounting procedures ensuring complete, accurate and transparent accounting following internationally accepted accounting principles; (a)(x) Reconciliation procedures ensuring that wherever required accounting balances are reconciled against third-party information.</p> <p>Bearing in mind the above-mentioned requirements and generally accepted accounting practice, certain deficiencies were identified during the audit of Annual Accounts regarding the Balance Sheet:</p> <p>1) Amounts presented in the following accounts have been miscalculated:</p> <ul style="list-style-type: none"> - account 115-1 (receivables from EC) – according to Manual of procedures for Accounting IPARD of Directorate for Management Structure account 115-1 should be used for recording of receivables from EC. During the review of documentation related to the audit of annual accounts, which includes analytical cards of accounts, financial reports, requests for funds, changes in the IPARD Euro account etc., it could be concluded that the balance on the above-mentioned account should be zero instead of amount of -625,81 which is presented in the Balance Sheet. This miscalculation was caused by wrong recording of “Form D1 – Declaration of expenditure and revenue which should be recorded in gross amount instead in net amount of funds. Furthermore, the total number of receivables amounts 49.594.75 instead of 48.274.19 (account 115); - account 115-7 (receivables for interest on debts) – according to Guideline No 5 (IPARD II ANNUAL ACCOUNTS): “the EU amount of calculated, and not repaid, interest should remain noted in the debtors’ ledger and should be returned to the Commission in case that interest has been later recovered from the debtor”. Considering this provision, DMS is obligate to calculate and record interest on debts. Therefore, in the Balance Sheet should be added the account 115-7 where should be recorded amount of 694,75 which presents the EU part of calculated interest on outstanding debt of 48.900.00€; - account 291-1 (liabilities to the EU contribution-long term Prepayments-advance payment) – according to Manual of procedures this account should be used for recording of liabilities to the EC for prepayments. Therefore, on this account should be recording only liabilities related to prepayments, although DMS used this account for recording all obligations which included obligations for prepayments and interim and final payments as well. Accordingly, instead of amount of -6.090.568,35 should stand amount of 6.091.194,16 which presents obligation for prepayment/ interim and final payments from EC. <p>2) Amounts presented regarding liabilities have negative value – During review of financial statements, it was noted that all amounts in the Balance Sheet related to the liabilities which include liabilities to IB/IA from EU contribution, liabilities for amounts due to the EC – recoveries and long-term liabilities have negative value instead of positive;</p> <p>3) There is not separated account for recording liabilities due to interest on debts – during review Manual of procedures and Balance Sheet, it was noted that account 281-1 (liabilities to the EC-recoveries) is used for recording liabilities to the EC for recoveries from IA and there is no account predicted for recording liabilities related to interest on debts. Given the fact that there is account for recording receivables for interest</p>	<p>data, AA recommendation will be reconsidered and taken into account if found relevant. However, AA considers it relevant that liability positions are presented as positive values, in accordance with the International Accounting Standards related to accrual accounting, thereby eliminating any doubt as to the accuracy and reliability of the financial statements. Further implementation will be monitored.</p>
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	<p>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>AA reply January 2024: 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> <p>AA reply AAAR 2024 Open</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>	
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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

During FY 2025 IPARD Agency has processed and reported 5 cases of irregularities to AFCOS office/ Irregularity Management system (hereinafter: IMS) which refer to the IPARD II programming period (2 from AA findings and 3 cases initiated by IA). A brief overview of the aforementioned cases is provided below:

- Case with ID 21-03-3-0006 – Irregularity alert form and Conclusion on established irregularity were verified on 20th January 2025. Recipient has recovered amount on 24th February 2025, therefore the case was **closed** in IMS on 12th May 2025;
- Case with ID 21-03-1-0044 – Irregularity alert form was verified on 24th March 2025 and Conclusion on established irregularity were verified on 25th April 2025. In this case irregularity was found before payment to recipient, so there was no financial effect. The case was **closed** on 19th March on 2025;
- Case with ID 18-01-1-0267 – Irregularity alert form was verified on 27th November 2025 as well as Conclusion on established irregularity. The recipient had recovered the funds on 3rd November 2025 so the case was **closed** accordingly;
- Case with 21-01-7.1-002 – Irregularity alert form was verified on 24th February 2025 and Conclusion on established irregularity was issued on 9th April 2025. The recipient had recovered the funds on 24th February 2025 and the case is **closed** accordingly;
- Case with application ID number 18-01-1-0307 was initially opened in January 2024, but the same was deleted from IMS since it remained there as a draft for an extended period. The software automatically deletes cases that have been in draft status for more than six months. Therefore, it was re-entered on August 5, 2025. Date of the first information leading to suspicion of irregularity according to the Irregularity register was 4th August 2023 and date of issuing Conclusion on established irregularity 12th September 2023. The recipient has returned the funds on 16th September 2025. Given the fact that procedure regarding this case is concluded AA recommends IA to initiate with AFCOS its closing.

At the moment, in the IMS, **29 cases are open**. Details from the IMS with relevant dates are presented in table below. **Also, it should be mentioned that some cases are still open although the recipient has recovered the funds and no court proceedings have been initiated** (these cases are presented separately).

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	Debtors ledger 2025	Interest amount on 31 st December 2025
				EU part	National part				
18-01-1-0228	4 th March 2020	Audit Authority	17 th September 2020	48.900€	16.300€	30 th September 2020 / 12 th October 2020	Not recovered yet (written-off occurred on 30 th September 2022) -judicial proceeding ongoing	YES – interest only	7,532.66
18-01-3-0303	25 th December 2020	Audit Authority	12 th January 2022	21.250,12€	7.083,38€	10 th December 2021 / 24 th January 2022	D1 for Q1 FY 2022 (amount has been deducted from new payment request) -judicial proceeding ongoing	n/a	
18-01-1-0274 ²⁸	4 th March 2021	IPARD Agency	13 th September 2021	/	/	/	/	n/a	
18-01-1-0242 ²⁹	15 th April 2021	IPARD Agency	12 th January 2022	/	/	/	/	n/a	
18-01-1-0134 ³⁰	16 th September 2021	IPARD Agency	28 th March 2022	/	/	/	/	n/a	
18-01-1-0201	10 th November 2021	IPARD Agency	28 th March 2022	38.940,95€	12.980,32 €	13 th August 2025 / 23 rd August 2025	Not recovered yet	YES	1,082.88€ ³¹
20-02-1-0065	7 th August 2023	IPARD Agency	31 st December 2023	91.973,89€	30.657,97 €	24 th October 2023	Bank guarantee activated 26 th October 2023 / 15 th November 2023 --judicial proceeding ongoing	n/a	
20-02-1-0107	22 nd August 2023	anonymous phone call	23 rd August 2023	99.394,24€	33.131,42 €	21 st March 2024 / 6 th April 2024	Not recovered yet - judicial proceeding ongoing	YES	18,569.59€

²⁸ Without financial effect, as the entire payment request was rejected. The recipient has filed a lawsuit, and the case is currently pending before the Basic Court for decision.

²⁹ Without financial effect, as the entire payment request was rejected. The recipient has filed a lawsuit, and the case is currently pending before the Basic Court for decision.

³⁰ Without financial effect, as the entire payment request was rejected. The recipient has filed a lawsuit and the case is before the Administrative Court for the decision, the IA has not received an invitation for the oral hearing.

³¹ In DL FY 2025 was entered amount of 758,01€, description of miscalculation of interest is described in part **Status of debts for IPARD II**

21-03-3-0024	27 th December 2022	IPARD Agency	16 th May 2024	3.072,00€	1.024,00 €	5 th September 2024 / 6 th September	Not recovered yet	YES	405.17€
22-04-3-0003	24 th January 2024	Audit Authority	4 th March 2024	2.743,80 €	914,60 €	8 th April 2024 / 8 th April 2024	Not recovered yet -judicial proceeding ongoing	YES	497.62€
18-01-1-0005	18 th March 2023	IPARD Agency	25 th January 2024	1.379,81€	459,94€	4 th July 2024 / 19 th July 2024	Not recovered yet	YES	209.23€
21-03-3-0001	12 th April 2023	IPARD Agency	8 th April 2024	32.067,15€	10.689,05 €	12 th March 2024 / 19 th March 2024	Not recovered yet -judicial proceeding ongoing	YES	6,188.21€
21-03-3-0028³²	20 th November 2023	IPARD Agency	19 th July 2024	10.678,52 €	3.559,51 €	2 nd August 2024 / 5 th August 2024	Not recovered yet -judicial proceeding ongoing	YES	1,547.83€
22-04-1-0021³³	2 nd August 2023	IPARD Agency/Audit Authority	11 th November 2024	12.398,17 €	4.132,72€	Not issued Decision on recovery	/	The decision on recovery has not yet been issued; therefore, it has not been entered into the DL	/
18-01-1-0318	22 nd February 2024	IPARD Agency	11 th November 2024	613,55 €	204,52 €	23 rd October 2024 / 23 rd October 2024	Not recovered yet	YES	73.33€
18-01-3-0006	5 th March 2025	Anonymous tip	25 th April 2025	111.083,62	37.027,88	28 th July 2025 / 16 th August 2025	Not recovered yet	YES	3,367.05€
19-02-3-0015³⁴	6 th October 2021	IPARD Agency	16 th January 2022	/	/	/	/	n/a	/
18-01-1-0274³⁵	4 th March 2021	IPARD Agency	13 th September 2021	/	/	/	/	n/a	/

³² Amounts which should be recovered are not the same in IMS and in Irregularity register because in IMS is presented contracted amount as amount of irregularity, but in Irregularity register is presented amount which was paid to recipient as amount of irregularity. Through communication with the IA, it was established that the IO revised the amounts relating to the sum to be recovered; however, these amounts had still not been corrected by AFCOS as of the date of submission of this report

³³ More details regarding this case are given below the table

³⁴ Reopen by OLAF due its incompleteness, without financial effect

³⁵ Without financial effect

As regards case with **ID 22-04-1-0021** (Contract reference 09-908/22-6408/43) which was classified as irregularity with suspicion on fraud, Audit Authority remains with the same position stated in the AAAR for 2024 and which was explained during the mission of DG AGRI in May 2025. As result of audit work, AA identified an irregularity in amount of EUR 12.398,17 (EU part). AA also 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. AA considers that the amount of identified irregularity should be recovered as soon as possible. After investigation, in case of a court decision determining fraud, the total amount of the project shall be recovered. However, although the IA verified Conclusion on established irregularity with suspicion on fraud on 11th November 2024, Decision on recovery of funds has not been issued and accordingly the recipient has not been entered in Debtor's ledger.

In the table below are presented cases in the IMS which are open, but AA recommends IA to initiate with AFCOS their closing:

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		
18-01-1-0127	26 th December 2019	Audit Authority	6 th March 2020	99,95	33,28	17 th June 2020 / 19 th June 2020	24 th June 2020
18-01-1-0278	26 th December 2019	Audit Authority	29 th June 2020	216,59	72,19	29 th June 2020 / 30 th June 2020	6 th July 2020
18-01-1-0307	4 th August 2023	IPARD Agency	12 th September 2023	5.588,17	1.862,72	6 th August 2025/22 nd August 2025	16 th September 2025
22-04-3-0023	10 th November 2023	Audit Authority	22 nd December 2023	3,277.50	1,092.50	26 th January 2024/1 st February 2024	1 st February 2024
19-02-3-0030	14 th December 2021	Audit Authority	12 th September 2023	4.078,25	1.359,42	3 rd April 2023	31 st May 2023
19-02-3-0018	8 th September 2021	Audit Authority	12 th September 2023	400,55	180,25	14 th March 2023	20 th March 2023
18-01-3-0014	13 th February 2021	Audit Authority	12 th September 2023	27,41	9,14	14 th March 2023	5 th April 2023
20-02-1-0175	21 st April 2022	IPARD Agency	2 nd August 2023	4.995,87	1.665,29	1 st December 2023	18 th December 2023
18-01-3-0004	29 th November 2021	Audit Authority	1 st April 2022	631,76	210,50	26 th April 2022	18 th May 2022
18-01-3-0004	7 th June 2022	IPARD Agency	28 th April 2023	49,59	16,53	12 th April 2023	9 th May 2023
18-01-1-0097	29 th July 2020	Audit Authority	1 st December 2021	9.573,92	3.191,31	10 th December 2021	28 th December 2021

Status of debts for IPARD II

As regards IPARD II programme, there were 5 new cases of debts included into Debtor's ledger during FY 2025 and AA tested all new cases. These cases are presented in Annex 7 Errors non – operational IPARD II 2025 (Sheet App 2.3.1 New debts + cancelled).

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 the time when the interest should be calculated). However, during the review of documentation related to outstanding debts, certain deficiencies were identified with regard to the calculation of default interest. Namely, based on the review of the interest calculation sheets, it was observed that default interest was incorrectly calculated for the recipients with ID numbers 18-01-1-0201 and 18-01-3-0006. As regards recipient with ID **18-01-1-0201**, a lower number of days was taken into account during the calculation. Specifically, in the Debtors ledger is presented an interest amount of **758.01 €**, which in fact represents the calculated interest excluding the month of December. With regard to the recipient with ID 18-01-3-0006, the difference in the calculated amount is a result of using a different start date for the interest calculation. Through communication with the IA, it was established that the starting day for the calculation of interest was taken as 14th September 2025 (30 days after the receipt of the Decision on recovery of funds), although the provided documentation clearly indicates that the recipient received the decision on 16th August 2025. Therefore, the starting date for the calculation of interest should be 16th September.

As a result of miscalculation of the interest for mentioned recipients, the closing balance of interest as well as total closing balance (principal + interest) are not well presented in the Debtors ledger that was submitted to the EC for FY 2025 for IPARD II programme.

A brief summary of the relevant information obtained from the submitted documentation with AA's calculation is presented in the table below.

ID number of recipients	Date of recipient note	Starting date for calculation of interest ³⁶	Principal (C) EU part	Interest rate (P) - 01.07.2025 - 31.12.2025 ³⁷	Number of days (D)	Total amount of interest (EU part) AA assessment	Debtors ledger (Interest EU part)	Difference
18-01-1-0201	23 rd August 2025	23 th September 2025	38.940,95	10.15	100	1,082.88	758,01	-324.87
18-01-3-0006	16 th August 2025	16 th September 2025	111.083,62	10.15	107	3,305.27	3.367,05	61.78

Formula for calculation of default interest is prescribed by Law on the Default Interest Rate ("Official Gazette of Montenegro", no 83/09 and 75/18) and is as follows:

$$I=C*P*D/36500$$

$$I=C*P*D/36600 - \text{for leap year}$$

³⁶ 30 days after receipt of the Decision for recovery of funds

³⁷https://www.cbcb.me/slike_i_fajlovi/fajlovi/fajlovi_naslovna/odluka_o_stopi_zatezne_kamate_jul_2025.pdf

According to above-mentioned regarding status of irregularities and debt for IPARD II can be concluded following: total of 15 debts are recorded in the DL, of which 5 were entered in FY 2025. For the recipient with ID 18-01-1-0228, the principal amount has been written off, while the interest amount has been correctly calculated and presented. Furthermore, during FY 2025, 4 recoveries were carried out in relation to the principal amount, and one recovery related to interest outstanding from previous years. All recipients recorded in the Irregularity Register with financial correction have also been entered into the DL, with the exception of the above-mentioned recipient with ID 22-04-1-0021.

***Follow-up on Action Plan on NAO reservations from Annual Management Declaration for the year 2024**

Annual Management Declaration for 2024 was issued with two reservations regarding control environment:

- Management establishes, structure, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives;
- IPARD Agency IPARD premises – work space in order to adequate perform the upcoming measures and call under IPARD III Programme.

With regard to first reservation MS initiated amendment of the Decision on the appointment of key IPA officials. As a result, amended Decision on the appointment of persons responsible for the implementation of indirect management of pre-accession funds (IPA) and the protection of the financial interests of the EU has been adopted on the Government session, held on July 31st, 2025.

When it comes to reservation regarding IPARD Agency premises new office space has been prepared for IA's operational needs. Also, works on installations and technical adaptation of the premises are currently ongoing, in parallel with the implementation of a public procurement procedure for furnishing the premises with the necessary office. All activities related to the adaptation and equipping of the premises are planned to be finalized in Q1 and/or Q2 2026.

Status of AA findings from previous years as well as those issued for FY 2025 is presented in the table below:

Findings	Closed	Partially closed	Open	Total number of findings
AA findings	11	10	27	48

As regards follow up of AA findings from previous years and for FY 2025, out of 48 findings, 11 are closed, 10 partially closed and 27 are still open. List of all findings is presented at the Table at the end of this Report.

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.	22-04-1-0021	12.398,17€
3.	24-01-3-0049	420,29 €
	Total:	15.562,26 €

As regards DG Agri Letter Ref. Ares (2023)5251704 from 28th July 2023, Audit Authority reply on progress of implementation of Action plan for ISO/IEC 27002 is presented in Annex 6 to this Report.

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

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, the audit of samples of transactions, the results of the audit of accounts carried out for the expenditure declared to the European Commission for the FY 2025 as well as follow up of previous audit findings, 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

Fund/ Programme	A Expenditure declared to the Commission in reference to the year	B Expenditure audited and its part from the expenditure declared to the Commission		C Total number of units in the population	D Number of sampling units for the random sample	E Amount and percentage (error rate) of irregular expenditure in random sample		F Total projected error rate	G Other expenditure audited (if any) ³⁸	JH Amount of irregular expenditure in the expenditure sample (if any)
		Public (EU + national)	EU part only			Amount	%			
Programme for Agriculture and Rural development of Montenegro - IPARD II	3.333.360,37€ ³⁹	2.509.626,15€	1.882.219,61€	18	4	420,29€	0,02	0,02	/	/

Table: List of all findings

Audit	Finding	Importance	Status
System audit FY 2025	Inadequate verification of the eligibility criterion related to the lease agreement	Major	Partially closed
	Deficiencies in announcing of Public calls	Major	Open
	Ineligible contracted amount regarding applicant with ID No. 24-01-3-0018 (Contract reference 09-908/24-22084/24)	Major	Open
	Lack of a definition of a "mountain area"	Major	Open
	Ambiguous criteria regarding eligible sectors under Sub-measure 7.2	Intermediate	Open
	Insufficient justification for re-verification of prices related to applicant with ID 24-01-7.2-0011 (Contract reference 09-908/24-11077/17)	Intermediate	Open

³⁸ Expenditure from complementary sample and expenditure for random sample not in the reference year (amount).

³⁹ This amount refers only to 18 final and interim payments.

	Insufficient information regarding “deadweight” and Maximum amount per measure and per programme	Intermediate	Partially closed
	Delay in contracting process	Intermediate	Open
	Shortcomings in verification of investment in renewable energy	Intermediate	Open
	Delay in recording contracts in accounting software	Minor	Open
	Inconsistencies in the procedures	Minor	Open
	Omissions in document drafting	Minor	Open
Audit of operations for FY 2025	Deficiencies identified in the process of determining deadweight	Major	Partially closed
	Deficiency regarding general costs assessment	Major	Open
	Deficiencies in IA`s working documents	Intermediate	Open
	Lack of request for a delivery note	Intermediate	Open
Audit of accounts for FY 2025	Deficiencies in content of annual financial reports	Intermediate	Open
	Non-compliance of Annual Management Declaration with FFPA template	Minor	Open
System audit follow up	Non - Updated Decision on appointment of persons in indirect management of EU pre-accession funds	Major	Closed
	Absence of a management information system	Major	Open
	Non-existence of an anti-fraud strategy	Major	Closed
	Inadequately defined common eligibility criteria	Major	Closed
	Inadequately defined rule of origin	Major	Partially Closed
	Insufficiently clearly defined procedure	Major	Open
	Discrepancy within IPARD III programme as well as between the IPARD III Programme and Decree for IPARD III	Major	Closed
	Insufficient staff in the IPARD Agency	Intermediate	Open
	Non-appointment of internal control coordinators	Intermediate	Partially Closed
	Deficiency in irregularity management process	Intermediate	Open
	Insufficient staff in the Management Structure	Intermediate	Partially closed
	Deficiencies related to AWP and WLA	Intermediate	Partially closed
	Inconsistencies in Decree for IPA III	Intermediate	Open
	Absence of KPI – Key performance indicators	Intermediate	Closed
	Shortcomings in procedures of Internal audit Department of EU funds	Intermediate	Partially closed
	Lack of staff Internal audit Department of EU funds	Intermediate	Open
Absence of whistleblowing procedure	Intermediate	Closed	

	Inadequate Organizational chart in Manual of procedures	Minor	Open
	Deficiencies in security control	Major	Partially closed
	Inadequate recording and reporting of irregularities	Intermediate	Partially closed
Audit of operations follow up	Control deficiency and irregularity with suspicion on fraud regarding application ID No. 22-04-1-0021 (Contract ref. No. 09-908/22-6408/43)	Major	Open
	Deficiencies related to Recipient under application ID No. 21-01-7.1-0002, Contract no. 09-908/21-11797/39	Major	Closed
	Administrative error related to Recipient under application ID No. 21-01-7.1-0013, Contract no. 09-908/21-11938/40	Major	Closed
	Undefined procedure related to VAT exemption in specific situations	Major	Open
	Inadequate assessment of reasonableness of prices by Evaluation Committee regarding application ID 22-04-3-0003, Contract reference 09-908/22-3210/29	Major	Open
	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)	Intermediate	Open
	Unequal approach of the evaluation committee	Major	Closed
Audit of accounts follow up	Deficiencies in the issued AMD for IPARD II and IPARD III programme	Intermediate	Closed
	Deficiency in compiling Balance sheet	Intermediate	Closed
	Shortcomings in compiling the Balance Sheet	Intermediate	Open

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 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
- Annex 7 Errors non-operational IPARD II 2025

List of abbreviation

AA	Audit Authority
AAAR	Annual Audit Activity Report
AAO	Annual Audit Opinion
AB	Accounting body
AC	Ancillary controls
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
KAC	Key and ancillary control
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
NIPAC	National IPA coordinator
OG	Official Gazette of Montenegro
OTSC	On the spot control
IA	IPARD Agency
SA	Sectorial Agreement
SSOs	System Supervision Officers
WLA	Work Load Analysis