



*Ministry of finance*

*IPA Fund Management Department*

*Information regarding the effective functioning of the management and control  
system under IPARD*

## **Information regarding the effective functioning of the management and control system under IPARD 2014- 2020**

The system for indirect implementation of the IPARD Programme 2014-2020 (measure 1,3,7,and 9) was entrusted with the signature and entrance into force of the Financial Agreement for IPARD 2014-2020 in June 2017.

During 2019, further improvements of the working procedures of IPARD Agency (version 2.0) were made, on the bases of:

- Modificationstothe IPARD Programme (firstmodification);
- Amendments to the Law on changing the Law for establishing IPARD Agency
- Weaknesses identified in the process of audits.
- Experience in the processing of the public calls under IPARD II;

This modifications of IPARD Agency Manual of Procedures (version 2.0) were qualified as significant and in accordance to the provisions of the Sectoral Agreement for substantial modifications were approved on 04<sup>th</sup> of October 2019. **Main substantial change** introduced within the management and control system with these modifications is that **only complete applications shall be preceded under the public calls**. The other modifications were qualified as non-significant and mostly related to adjust the system with modificationstothe IPARD Programme, audit recommendations, amendments to the Law on changing the Law for establishing IPARD Agency as well as experience in the processing of the public calls.

In addition, significant change that was proposed in the working arrangements of the National Fund, in particular in the Accounting System was approved by DG AGRI on 18 of September 2019. (Ref. Ares(2019)5829017 - 18/09/2019). Pursuant to the approval this changes shall be implemented in practice as of 01<sup>st</sup> of January 2020.

The activities undertaken by the IPARD Structures for improving the functioning of the system for indirect management are presented in the following part.

### **1. Verification Visit**

NAO support office within the Annual plan for verification visits for 2019, planned three verification visit.

By November 2019 two of this verification visits were conducted.

With the **first verification visit** were checked projects in amount of EUR 653,904.33 (public contribution). With this verification visit was checked functioning of the controls within approval and payment phase.

**Second verification visit** was related to the implementation of controls for verifying implementation of criteria laid down in the Recommendation 2003/361/EC concerning size of the enterprise (**SME – Small and Medium Enterprises**). With this verification visit were checked all legal entities (applicants) under measure 7 from public call 01/2017.

Experiences from this verification visit were considered within the process for improving the control system for checking the control steps for confirming the criteria

laid down in the Recommendation 2003/361/EC and implemented in the version 2.0 of the IPARD Agency Internal Manual of Procedures.

**Third verification visit is planned** to be performed over implementation of measure **Technical Assistance** and shall start November/December 2019. Expected period for concluding the report of this visit is end of 2019/beginning of 2020.

According to the Internal Manual of Procedures Annual Plan for Verification Visits for 2020, shall be prepared and adopted by January 2020.

## ***2. Monitoring the implementation of the audit recommendations***

### **(a) Internal Audit**

The IPARD Operating structures were subject of internal audit during the 2019 by the internal audit departments/units established in each institution.

#### ***Management Structure***

According to the Annual Audit Plan for 2019 of the Department for Internal Audit within the Ministry of Finance one audit mission was planned and realised within NAO/MS over the control of the correctness of the requests and certification of expenditures towards EC.

#### ***IPARD Agency***

The Annual Audit Plan for 2019 of the Department for Internal Audit within the IPARD Agency envisage 10 (ten) audit activities, out of which six audits are envisaged for IPARD processes.

During 2019 from the abovementioned 6 (six) audits over the processes from IPARD 2014-2020, three audits are finished (follow up audit, audit on execution of on the spot controls after payments, contracted projects under measure 3) one (contracted projects under measure 7) is ongoing and one audit over executed payments should start in December 2019. The foreseen audit engagement: advisory support to the accreditation process of measures Leader and Advisory Services from IPARD Programme 2014-2020 shall be postponed for the forthcoming period depending on the processes of accreditation of these measures.

#### ***Managing Authority***

The Annual Audit Plan for 2019 of the Ministry of Agriculture, Forestry and Water Economy foresees two audit missions over the projects financed under international donors within MAFWE.

### ***(b) Audit Authority Reports***

The Audit Authority for IPA during 2019 issued the Annual Audit Report and Annual Audit Opinion for 2018.

With the Annual Audit Opinion auditors expressed an Unqualified opinion regarding the Reliability of the annual-financial reports or statements/annual accounts. Auditors expressed Unqualified opinion with emphasis of matter for legality and regularity of expenditures and functioning of Management and control systems with attention regard to: insufficient staff in the IPARD Agency, no retention policy, lack of professional trainings, not harmonizes Law on Establishing of the IPARD Agency, lack of supervision in the process of authorisation of payment and wrongly calculated reference price.

In the table below are presented findings from the Annual Audit Report for 2018 for implementation of IPARD II Programme:

	Major	Intermediate	Minor	Total
NAO/MS	/	2	/	2
MA	2	6	/	8
IPARD Agency	6	4	3	13
Total:				23

Regarding the open findings from AA reports, NAO in coordination with the operating structure prepared Action Plan action plan as of 25<sup>th</sup> July 2019 and updates the same on quarterly base. With the action plan activities for overcoming the findings are envisaged. With the updated action plan four findings regarding IPARD Agency are closed related with changes in the version 2.0 of IPARD Agency Internal MoP, payment towards two final beneficiaries regarding administrative errors that were done in the authorisation process, adoption of the Law for changing and amending the Law on establishing IPARD Agency as well as closure of findings with the final position of DG AGRI within clearance of accounts procedure where most of the findings with financial impact were qualified by DG AGRI with findings that should not imply financial correction.

Final Report from audit of operation 1 is expected.

### **3. Monitoring of the Administrative Capacities of the Operating Structure**

#### **Management Structure**

According to the WLA for 2020 the optimal number of employees in the Management Structure is 19 (including NAO).

In the following period fulfilment of two positions Head of Unit should be realised.

#### **IPARD Agency**

The Workload Analysis (WLA) of IPARD Agency covers the activities for the five measures of IPARD programme i.e the four entrusted measures under indirect management and the new measure IRI which is in the process of entrustment (see section 4).

According to the Workload Analysis (WLA) for 2019 the optimal number of employees needed in IPARD Agency is 150. The WLA for 2020 is under preparation but the preliminary numbers are forecasted in the table below.

The current number of employees in the IPARD Agency, with cut of date 15<sup>th</sup> November 2019, is 122 designated to work on IPARD related issues. Having in mind the current number of employees, the occupancy rate according the WLA 2019 is 81,3%.

Till the moment of submission of this report to MA, IPARD Agency has not sent the WLA for 2020 to NAO, although the deadline according to the Implementing Agreement was 25th September.

#### **Activities undertaken for strengthening HR capacities in IPARD Agency:**

On 05<sup>th</sup> of November 2019 Public call for employment of 22 civil servants in IPARD Agency is published. The plan is these employments to be realised by the end of 2019. With finalisation of this phase, the plan adopted by the Government in 2018 for 68 new employees, although delayed, will be completed. . However the risk of people engaged under contracts by the end of 2019 should be mitigated in the following period as significant challenge.

#### **Managing Authority**

According to the Workload Analysis (WLA) for 2019, Managing Authority has set optimal level of staff on 19 employees for 2019.

In 2019 two employees from the Unit for implementation of IPARD Technical assistance were reallocated in other departments within the MAFWE (out from MA) . In addition, one employee as previously reported was promoted to the post Deputy Head of the Sector for management of EU pre-accession funds for rural development (IPARD).

The current number of employees in MA is 15 (Including HoMA).

In the table below are presented the data regarding the human capacities by 15<sup>th</sup> November 2019:

Institution	Number of staff on 31.12.2018	Number of staff needed as per WLA 2019	Number of staff needed as per WLA 2020	Realized new recruitments by 15.11.2019	Left the position 15.11.2019	Number of current staff 15.11.2019	Ongoing recruitments	Number of employments after recruitments	Current occupancy rate	Occupancy rate after recruitment	Turnover rate
NAO/NF	17	20	19	1	1	17	0	17	85%	85%	5.88%
IPARD Agency	109	150	N/A*	18	5	122	22	144	81%	96%	4.59%
Managing Authority	17	19	19	0	2	15	0	15	79%	79%	11.76%
<b>Total</b>	<b>143</b>	<b>189</b>	<b>/</b>	<b>19</b>	<b>8</b>	<b>154</b>	<b>22</b>	<b>176</b>	<b>82%</b>	<b>93%</b>	<b>7.41%</b>

\* WLA (2020) for IPARD Agency not yet finalised

#### **4. Accreditation of new measures within the frame of the IPARD Programme**

The Request for being entrusted with budget implementation tasks for the measure Investments in Rural Public Infrastructure from IPARD Programme 2014-2020 was submitted to EC on 13<sup>th</sup> November 2018.

With letter dated 03<sup>th</sup> April 2019 DG AGRI submitted initial observations and recommendations concerning the submitted package for EBIT request. Main observations were related to HR capacities, Law on AFSARD and IPARD Agency procedural arrangements.

Law on amending the Law on establishing AFSARD was adopted and this recommendation is overcome.

However due to the HR capacities that was pointed as blocking finding by EC, continuous efforts are undertaken. As it was recommended by DG AGRI, continuation of this process concerning entrustment of IRPI measure depends exclusively with establishment and training of adequate staff for implementation of this measure before entrustment is granted.

National Managing and Operating structure with coordination of the Minister of MAFWE agreed that due to the limited number of HR capacity, the focus of the employees to be over implementation of already accredited measures, till securing optimal number of staff for implementation of new measure IRPI.

## ***5. Financial management***

Till 25<sup>th</sup> November 2019 the executed payments for Community contribution were in amount of 8.642.578,19 EUR.

Total declared amount of Community contribution is EUR 6,2 million, out of which EUR 5,2 million were already declared in 2019. D1 for Q4 is expected on amount of EUR 4,1 million.

### **Calculation of De-commitment of funds for 2019**

During calculation of the potential risk of de-commitment the following inputs/assumptions have been taken into consideration:

1. Total IPA allocations 2014-2016 are 15,000,000.00 EUR;
2. Received pre-financing is 6,300,000.00 EUR;

Taking into consideration the above stated inputs, there is no potential risk of de-commitment of funds at the end of 2019.

<b>V component</b>		
<b>Calculation of De-commitment Risk According N+4 Rule</b>		
<b>No.</b>	<b>Reference</b>	<b>Community Contribution in €</b>
1.	Financial allocations 2014-2016	15,000,000.00
2.	Received pre-financing	6,300,000.00
3.	Declared amount 2018/2019	6,197,418.51
4.	Amount planned to be declared in Quarter 4/2019 - paid by 25 November 2019 – 2,455,456.63 € - to be additionally paid till end of 2019 – 1,663,545 €	4,109,002,35
<b>5=1-2-3-4</b>	<b>No Potential De-commitment of funds at the end of 2019</b>	

The amount of 882,880.72 EUR is authorized amount by the IPARD Agency and approved by National Fund. The payment is not proceeding due to the lack of funds in the Budget of IPARD Agency for the national co-financing part. Also new Request for funds are expected to be sent to NF in amount of 780,665.00 EUR. It is expected IPARD Agency to provide the necessary funds in their budget and not be caused any problems in smooth payments of contracts.

**Calculation of De-commitment of funds for 2020**

During calculation of the potential risk of de-commitment for 2020 the following inputs/assumptions have been taken into consideration:

1. Total IPA allocations 2017 is 6,000,000.00 EUR;
2. Secured funds from 2019 in amount of 1,606,420.86 EUR
3. Forecasted amount to be paid in 2020 – 920.523 EUR

According to the calculations, we can consider the amount of 1,606,420.86 EUR already secured from allocation of 2017.

<b>V component</b>		
<b>Calculation of De-commitment Risk According N+3 Rule</b>		
<b>No.</b>	<b>Reference</b>	<b>Community Contribution in €</b>
1.	Financial allocations 2017	6,000,000.00
2.	Secured funds from 2019	1,606,420.86
3.	Planned to be paid in 2020 (Funds provided in the Budget 2020)	920,523.00
<b>4=2+3-1</b>	<b>Potential De-commitment of funds at the end of 2020</b>	<b>-3,473,056.00</b>

Taking into consideration the above stated inputs, there is potential risk of de-commitment of funds at the end of 2020. The forecasted amount to be paid in 2020 is planned in the Plan for call for application sent to Management Department in July 2019, which was used for preparation of Budget Proposal for 2020. Thus, IPARD Agency and MS have planned IPA - 0.9 million EUR and NCF – 0.3 million EUR. This is considered as a not good planning and will have impact on the payments and de-commitment if IPARD Agency does not provide necessary NCF funds for payment till the end of 2020.