



Ministry of finance

IPA Fund Management Department

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

March 2023

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

Changes to the Internal Manual of Procedures of the IPARD Agency have been prepared during 2022, in order to increase the efficiency of IPARD Agency. Namely, in order to speed up the process of payments and on the other hand to decrease the risk of de-commitment of funds under IPARD Programme, possibility of advance payment was introduced. The modifications were qualified as significant and a request for approval was sent to DG AGRI on 17th October 2022. National authorities were informed by EC on 03rd January 2023 that the proposed changes do not conflict with the provisions of the Framework Agreement (FwA) and the SA II and there is no need of prior approval by the Commission.

According to the national set up of using advances, the applicant can submit a request for an advance payment of the financial support within 60 days after the conclusion of the agreement for financial support. The advance payment cannot exceed an amount greater than 50% of the amount of the approved financial support for the investment.

After the EC reply, consent is issued by NAO for implementation of these modifications (implementation of advance payments) as from processing the applications for financial support received under public call 01/2022. This consent is conditional with achieving full functionality of SAP system. Till the preparation of this Annual Management Declaration, advance payments are not applied since IPARD Agency is still working on testing and securing full functionality of SAP system.

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 2022, planned three verification visit.

The first verification visit is ex-post on the spot control on paid projects. This verification visit started in April 2022. With this verification visit were ex post on the spot checked projects in amount of 1.414.025,34 EUR, representing volume of around 18,58% of the total paid projects during 2018 and 2019. Under measure 1 the sample population was also limited on investments where the paid amount to the beneficiary was over 1.300.000 MKD. The Final Report was issued on 4th July 2022.

No major findings were identified.

The scope of second activity was to verify compliance of the established/designed system with the ICF requirements for IPARD III. This activity is ongoing within the process for preparation of the request for entrustment with the budget implementation tasks for IPARD 2021-2027 Programme.

Third verification visit is for Administrative check of the paid projects in the period July - November 2022 and has started in December 2022. Within this verification visit are to

be checked 7 projects from measures 1, 3, 7 and 9 in amount of 1.228.551,38 EUR, amount representing around 23% of the disbursed amount within this period.
This verification visit is ongoing at the moment.

Annual Plan for Verification Visits for 2023 is adopted in January 2023 and is foreseeing four visits (continuation and finalisation of the first two visits which have been started in 2022 and additional two visits related to the processes of ex-post-on the spot checks and follow up on the implementation of recommendations given with the previous verification visits).

2. Monitoring the implementation of the audit recommendations

(a) Internal Audit

The IPARD Operating structures were subject of internal audit during the 2022 by the internal audit departments/units established in each institution.

Management Structure

According the Annual Internal Audit Plan for 2022 in the Ministry of Finance, one audit mission was planned over the system of internal controls in the process of human resources management in the IPA Funds Management Department/Management Structure. The audit mission was performed during the fourth quarter of 2022. According the Final Audit Report as of 20th December 2022, one high finding was identified in relation to the need for securing optimal number of HR capacities. The other issues noted in the report were need for technical improvement in the process of appraisal. The Annual Internal Audit Plan of the Ministry of Finance for 2023 (is foreseen audit mission over the system of internal controls in the process of management of funds/accounts and control of the correctness of requests for funds and certification of expenditures - National Fund Unit).

IPARD Agency

According the Annual Internal Audit Plan of the IPARD Agency for 2022, eight audit missions were planned, out of which 5 audits over processes concerning IPARD, one follow up audit and one audit at the request of the IPARD Agency director.

During 2022, one audit from the 2021 Annual Audit Plan and four audits from the 2022 Annual Audit Plan were conducted:

- Audit on the process of approval of payments from the IPARD Program 2014-2020;
- Audit on the reporting process to the Management Authority in accordance with the Implementing Agreement concluded between MA and IPARD Agency;
- Follow up audit on the implementation of recommendations;
- Audit over the on-the-spot control process after payment (ex-post) from the IPARD Program 2014-2020;

- Self-assessment of the compliance of the procedures of the IPARD Agency for the implementation of the IPARD Programme 2021-2027.

Three remaining audit from Audit Plan for 2022 will be conducted during 2023.

The Annual Audit Plan of the IPARD Agency for 2023 (No.32-1542/1 dated as of 15th December 2022) is adopted. According the plan, 5 audit missions are planned, out of which 2 audits over processes concerning IPARD, one follow up audit and one audit upon request by the director (which might be also on IPARD if needed).

Managing Authority

The Sector for Internal Audit in the Ministry of Agriculture, Forestry and Water Economy performs internal audit over the Managing Authority.

The Annual Audit Plan for 2022 of the Ministry of Agriculture, Forestry and Water Economy foresees audit mission over the process of organisation of a Monitoring Committee for 2020. The audit is ongoing and is planned to be finished till the end of February 2023.

The Annual Audit Plan of the Ministry of Agriculture, Forestry and Water Economy for 2023 (No.98-1163/1 dated as of 25.01.2023) foresees one audit mission over the process of publicity of IPARD Programme that is planned to be performed in 2023.

According the abovementioned can be concluded that the Internal Audit function within all IPARD structures is functioning. From the identified findings can be summarised that there were no major deficiencies that are blocking factor for the functioning of the Management and control system.

(b) Audit Authority Reports

The Audit Authority for IPA issued the Annual Audit Report and Annual Audit Opinion for 2021 on 1st April 2022 (No. 01-737).

With the Annual Audit Opinion for 2022 the auditors expressed an:

Unqualified opinion with emphasis of matter regarding the Reliability of the annual-financial reports or statements/annual accounts with attention regard to: generating incorrect data from the accounting system (SAP) in the Debtors' Ledger, less inflow on the IPARD euro account due to off-setting of debt and withheld funds as bank charges.

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: lack of supervision in the process of authorisation of commitments and payments, wrong calculation of eligible funds for co-financing, absence of a long-term retention and motivation policy and late payments to recipients.

In the table below are presented findings from the Annual Audit Report for 2021 for implementation of IPARD II Programme, where 29 open findings were followed by NAO:

Institution	Major	Intermediate	Minor	Total	Implemented findings during 2022	% implemented findings
NAO/MS	2	2	/	4	3	75%
MA	/	1	/	1	/	0%
IPARD Agency	7	15	2	24	7	29,2%
Total:				29	10	34,5%

As regards to the Annual Audit Activity Report for 2021 from 29 findings, 10 were closed till the end of 2022 or 34,5%.

In addition, should be noted that findings regarding IPARD 2007-2013 are also followed by NAO since there are still activities that are ongoing concerning their closure.

Regarding the open findings from AA reports, NAO in coordination with the operating structure on 29th April 2022 prepared Consolidated Action Plan and on 3th November 2022 prepared Revised Action Plan with deadlines and responsibilities for implementation of the recommendation and overcoming the findings. Revised Action Plan includes findings from the external IT audit by DG AGRI.

NAO continuously is monitoring the implementation of the actions agreed for overcoming the findings. On quarterly basis, the IPARD Agency and Managing Authority are submitting to NAO, Table for implementation of audit recommendation, where the latest status of undertaken activities is given. The NAO support structures performs analysis on the dynamic of implementation of activities and informs NAO regarding the status of implementation of the recommendations.

According to the last status, can be concluded that:

In the NAO/MS, 3 (three) finding were closed related to: key position not filled (qualified as medium risk finding), Off-setting of a debt and understated inflow of funds on the IPARD II euro account (qualified as high risk finding) and less inflow on the IPARD euro account due to withheld funds as a bank fee for executed transactions (qualified as high risk finding).

In addition, 1 (one) finding remain open related to providing an appropriate motivation and retention policy.

Regarding MA, during 2021, 1 (one) finding remain open related to securing optimal HR capacities (qualified as medium risk finding).

In IPARD Agency 7 (seven) findings were closed related with wrong calculation of eligible costs (less paid funds and higher amount of financial support approved),

deficiency in the process of obtaining reference prices and generating incorrect data from the accounting system (SAP) in the Debtors' Ledger.

Following findings remain open in IPARD Agency:

- 11 (eleven) findings from audit on operations related to: concluding contract without 3 offers being provided (these 2 (two) findings are part of the procedure of CoA for FY2020), non comparable offers and higher amount of financial support paid due to technical mistake (these two finding are part of the procedure of CoA for FY 2021), delays in payment to aid recipients; delays in submission of data by the Technical bodies; delays upon processing of applications; not accepting eligible expenditure for assembling materials, weak system of established internal controls for implementation of the contract for technical assistance and 2 (two) findings related to less paid funds.
- 5 (five) findings from system audits related to HR capacities in the Agency; IT - beck up system and delay in submitting reports to MA and NAO.
- 1 (one) finding from financial audits related to budget report.

From the submission of the Annual Audit Report the activities for implementation of audit recommendations were commenced, however for some systemic issues (such as retention policy, employments and etc.) there are still activities ongoing, having in mind that they require support on highest governmental level and inter-institutional coordination.

(c) External Audit

During 2020, was conducted audit pursuant to Article 50(1)(c) of the IPARD II Framework Agreement. The audit mission was conducted by an external audit company (contractor).

The main objective of the audit was to examine whether the IPARD Agency complies with the ISO 27002:2013 information security standard and limited review with focus on follow up of information security of the systems used by the National Fund and National Authorising Officer. The audit was conducted in the period 21-25 September 2020 , while the report was received by NAO in July 2022. With the report, 5 recommendations for IPARD Agency and one observation for Management Structure were issued. These recommendations/observations are being followed through the dynamic of implementation of activities and presented in the update of the Action Plan. One finding regarding this Audit is already closed - related to Access control.

3. *Monitoring of the Administrative Capacities of the IPARD Structure*

Management Structure

According to the WLA for 2022 the optimal number of employees in the Management Structure is 19 (including NAO).

The number of employees in the Management Structure at 31st December 2021 was 18 (eighteen), including NAO. In April 2022, one junior associate from National Fund Unit was internally transferred within Ministry of Finance. The Workload Analysis for the period 2023-2025 was prepared and the results of the calculations showed that the optimal number of employees in MS for 2023 is 19 (nineteen).

According to the workload analysis, priority in the forthcoming period will be 4 promotions (including promotions for two vacant key managerial positions) and two new employments.

The current number of employees in MS is 17 (Including NAO) and the occupancy rate according to the WLA for 2022 is 89%.

Additionally, it should be stated that the Rulebook on systematization of working posts and the Rulebook on organization and work of the Ministry of Agriculture and Rural Development were changed as of December 2022 and accordingly, the IPA Funds Management Department/ Management Structure is consisted of three Units (National Fund Unit/IPA Accounting Body, NAO Support Unit and the newly established NAO Support Unit in the field of agriculture and rural development). According to the new Act on Systematization of working posts, the new Unit within the Department was established in order to appropriately divide the regular tasks and responsibilities currently being performed within the department, as well as to decompress the increased workload on the managerial positions. The change is a result of functional analysis performed according to the national law and takes into consideration the workload analysis prepared through the years. Certain activities such as irregularities, HR issues and risk management process are horizontal for both IPARD and other IPA Programmes and shall be performed as single process for all programmes.

IPARD Agency

According to the Workload Analysis (WLA) for 2022 the optimal number of employees needed in IPARD Agency for implementation of the accredited measures, including the measure Investments in Rural Public Infrastructure (IRPI) was 165. At the beginning of 2022, IPARD Agency numbered 146 employees designated to work in IPARD structure.

According to the WLA analysis of the IPARD Agency for 2023 the optimal number of employees in the Agency is 177, including the measure Investments in Rural Public Infrastructure (IRPI). With the WLA for 2023 change was made where in the Sector for Control all employees are included in the IPARD structure (taking into account general authorisation, controllers working in the Unit designated for national measures shall be engaged in IPARD as well). Taking into account this change all needed positions in the Sector for Control for implementation tasks regarding IPARD Programme are considered fulfilled.

Currently, IPARD structure within the Agency numbers 151 employees.

Having in mind the current number of employees, the occupancy rate according to the WLA 2022 is 85%.

Managing Authority

According to the Workload Analysis for 2022, Managing Authority has set optimal level of staff on 17 employees. At the beginning of 2022, MA numbered 15 employees.

During 2021 one person was employed and 3 persons left the MA (one advisor for publicity and 2 senior associates who were temporarily employed).

At the beginning of 2023 (as of 25th of January 2023, one new employee was engaged in the MA with whom the number of employees in MA counts 14). According to these changes, the current number of employees in MA is 14 (including HoMA) and the occupancy rate is 82%.

The Workload Analysis for the period 2023-2025 was prepared and the results of the calculations showed that the optimal number of employees in MA for 2023 is 17 (seventeen).

It should be noted that the Systematization Act of the Ministry of Agriculture, Forestry and Water Economy has been changed in order to be enhanced the functioning of the system. In that manner, the functional analysis of IPARD MA recommended an elimination of one unit within the department. The rationale was that this unit had vertically affiliated functions, which were not needed, and thereby this unit responsibilities, functions and employees was transferred to two other units within the department with horizontally positioned functions.

IPARD Structure capacities

In the table below are presented the data regarding the human capacities in the IPARD Management and Operating structure for the year 2022:

Institution	Number of staff on 01.01.2023	Number of staff needed as per WLA 2023	Realized new recruitments by 10.03.2023	Left the position 10.03.2023	Number of current staff	Current occupancy rate	Turnover rate
NAO/NF	17	19	0	0	17	89%	0.00%
IPARD Agency*	152	177	0	1	151	85%	0.66%
Managing Authority	13	17	1	0	14	82%	0.00%
Total	182	213	1	1	182	85%	0.55%

*with WLA 2023 for IPARD Agency from Sector for Control all employees are included in the IPARD structure (meaning inclusion of controllers working on national measures). This changes shall be considered in the baseline for calculating needs in 2023 and are not considered and have no effect on the calculating the needs and turnover for 2022.

By the preparation of this self-assessment report, following can be reported:

Regarding the staff retention in IPA Structure with the Law on Execution of the Budget for 2022 short term solution for motivation and retention of staff in IPA structures (Retention Policy) is implemented. The solution provides 15% flat rate top up on the salary of the staff in the IPA structures till the end of 2022 and same is also incorporated for 2023. With this solution is intended to overcome the gap till adoption of long term systematic solution.

In parallel, working group established by NIPAC is working on long term systematic solution of retention and motivation policy that should be placed in the Law on Administrative Servants and related legal acts.

On the initiative of NAO a request has been submitted to the DG AGRI and DG NEAR (letter 10-2675 / 1 dated 13.04.2022) to consider the possibility of an additional financial component of IPA to complement the retention and motivation policy of staff in the IPA Structure under IPA III programmes. This request was also supported by Serbia, Albania and Montenegro. However, till now no respond by EC was submitted to NAO on this request.

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

Request for entrustment of new measures is planned for IPARD III. However, entrustment process will follow after roll over of the already entrusted measures and fulfilment of precondition such as engaging additional employees in the IPARD Agency according to WLA and providing new working premises for the Agency.

5. Financial management

Till 09th March 2023 the executed payments for Community contribution amount were as follows:

- EUR 1 mil for 2023
- EUR 35,94 mil for total implementation of the programme.

Total declared amount (D1 form) for Community contribution till Q4 2022:

- for 2022 was EUR 13.37 mil
- for the whole implementation of the programme in amount of EUR 34.85 mil

Calculation of De-commitment of funds for 2023:

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

Calculation of De-commitment Risk According N+3 Rule		
No.	Reference	Community Contribution in €
1.	Financial allocations	60.000.000,00
2.	Declared amount till 2022	34,852,364.46
3.	Forecasted amount to be paid in 2023	14,006,797.00
4=1-2-3	Potential De-commitment of funds at the end of 2023	11,140,838.00

Taking into consideration the above stated calculation, the potential risk of de-commitment of funds at the end of 2023 is 11.14 mil EUR.

During 2023, 25.1 mil EUR has to be paid in order de-commitment to be avoid.