



*Ministry of finance*

*IPA Fund Management Department*

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

*December 2023*

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

### **1. Internal Manual of Procedures**

No additional changes to the Internal Manual of Procedures have been done, since the last approved changes to the Internal Manual of Procedures of the IPARD Agency prepared in the course of 2022, in relation to the possibility of advance payments.

The implementation of advances was conditionally approved with achieving full functionality of SAP system.

The functionality of SAP system was achieved as of 26<sup>th</sup> June 2023 (when IPARD Agency informed that the SAP ERP software for implementation of the advance payment has been already finalised and the software is fully functional for implementation).

### **2. Verification Visit**

NAO support office within the Annual plan for verification visits for 2023 as of 30<sup>th</sup> January 2023, planned to perform four verification visits as monitoring tool of the functioning of the MCS. Three VVs related to the IPARD II and one VV related to the IPARD III Programme (reviewing whether the established structures and authorities are in compliance with the requirements for for entrustment of the budget implementation tasks for IPARD III).

The first verification visit in relation to the IPARD II Programme 2014-2020 was related to continuation and finalisation of the Administrative check of the paid projects from December 2022 till May 2023 under Measure 1, Measure 3, Measure 7 and Measure 9 in amount of 1.228.551,38 EUR, amount representing around 23% of the disbursed amount within this period.

With this verification visit were administratively checked 7 paid projects. The Final Report was issued on 17<sup>th</sup> July 2023.

Three major findings were identified with financial impact, one medium finding was identified and one red flag situation which for the corrective measures should be undertaken.

The scope of second Verification Visit is on Project Level for paid projects, in particular administrative and ex post - on the spot checks (for the project applications under measure 1, 3 and 7. This verification visit is ongoing.

Total amount of 1,860,557.79 EUR will be checked out of 12,181,846.25 EUR paid projects in 2020 and 2021 (paid projects over 600.000,00 MKD from Measure 1 and 7) which amount represents around 15,27 % of the paid amount in the referent period.

One of the verification visits performed in 2023 was activity related to the IPARD III Programme (IPARD III accreditation) in order to verify compliance of the established/designed system with the ICF requirements for IPARD III. This activity was finalized with the official submission of the request for entrustment for IPARD 2021-2027 Programme.

The last verification visit is planned as follow up on the implementation of recommendations given with previous VV activities. This activity will be used as a monitoring tool before issuing the AMD for 2023.

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

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

The IPARD Operating structures were subject of internal audit during the 2023 by the internal audit departments/units established in each institution.

##### Management Structure

According the Annual Internal Audit Plan for 2023 in the Ministry of Finance, one audit mission was planned over the system of internal controls in the process of management of EU funds, accounts and control of the correctness of requests for funds and certification of expenditures - National Fund Unit in the IPA Funds Management Department/Management Structure. The audit mission was performed in the course of September 2023 - November 2023. According the Final Audit Report as of 10<sup>th</sup> November 2023 (Ref. 23-7662/3), one high finding was identified in relation to the need for securing optimal number of HR capacities for effective and efficient performance of the working tasks, in particular those related to the management of funds.

##### IPARD Agency

According the Annual Internal Audit Plan of the IPARD Agency for 2023 as of 15.12.2022, five audit missions were planned, out of which 2 audits over processes concerning IPARD, one follow up audit, one audit related to the national programme concerning direct payments and one audit at the request of the IPARD Agency director.

4 audits were performed and 1 self assessment for IRI measure ( Investments in public rural infrastructure). The performed audits were related to:

- accounting of IPARD commitments/payments ( from Audit plan 2022)
- authorization of IPARD payments ( from Audit plan 2022)
- approval of contracts for measures 1 and 7 and
- follow up audit

##### 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 2023 foresees audit mission over the process of the implementation of the IPARD Programme and IPA financed projects in the process of publicity of the IPARD Programme.

The internal audit of the IPARD Programme's publicity process is ongoing and will be completed by the end of 2023. The internal audit findings and recommendations will be known upon completion of the audit and issuance of Final Report.

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

The Audit Authority for IPA issued the Annual Audit Activity Report and Annual Audit Opinion for 2022 on 15<sup>th</sup> March 2023 (No. 01-362).

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: the Declaration of Expenditure and Annual Financial Reports or Statements/Annual Accounts for FY 2022.

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: weaknesses in 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 Activity Report for 2022 for implementation of IPARD II Programme, where 37 open findings were followed by NAO:

Institution	Major	Intermediate	Minor	Total	Implemented findings during 2022	% implemented findings
NAO/MS	/	1	/	1	/	0%
MA	/	1	/	1	/	0%
IPARD Agency	13	20	2	35	15	42,8%
<b>Total:</b>				<b>37</b>	<b>15</b>	<b>40,54%</b>

As regards to the Annual Audit Activity Report for 2022 from 37 findings, 15 were closed or 40,54%.

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 24<sup>th</sup> October 2023 prepared revised and updated Consolidated 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, 1 (one) finding remain open related to providing an appropriate motivation and retention policy.

Regarding MA, during 2022, 1 (one) finding remain open related to securing optimal HR capacities and vacant key positions (qualified as medium risk finding).

In IPARD Agency 15 (fifteen) findings were closed related with wrong calculation of general costs (less paid funds), not accepting eligible expenditure for assembling materials, addendum not signed to the Contract for allocation of funds for construction of sorting and store houses for eggs-part Dolneni, transport costs paid, incomparable offers according to technical characteristics and final result, wrong data entry into the authorisation table, inappropriately granted 10% additional funds as financial support, wrong calculation of general costs and authorised and paid lower amount of financial support, ineligible expenditure paid for purchase of photovoltaic panels, less paid funds for seedlings due to technical mistake, less paid funds due to wrong entry of data in the authorisation table, incomparable offers according to technical characteristics and final output, ineligible expenditure paid for purchase of steel galvanised (zinc-coated) pipes, general costs accepted for co-financing above the acceptable limit of 12% .

Following findings remain open in IPARD Agency:

-20 (twenty) findings from audit on operations related to: not securing proper technical conditions of the reserve location for continuing the unobstructed operations, 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), reduced amount o financial support, not accepted general costs, weak system of established internal controls for implementation of the contract for technical assistance, late payments, impossibility to confirm achievement of investment's goal and its economic and financial sustainability, increased number of technical mistakes upon preparing authorisation table, delays in submission of data by the Technical bodies; delays upon processing of applications; reduced degree of control and incorrect data in checklists by controllers upon on-the spot control.

- 6 (six) findings from system audits out of which 2 findings related to HR capacities in the Agency, not official appointment of the acting director, inappropriate premises, not respecting provisions of the Implementing Agreements signed with NAO and MA.
- 1 (one) finding from financial audits related to budget report not generating SAP.

From the submission of the Annual Audit Activity 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.

The updated activities that are undertaken to overcome the recommendations from the IT audit are noted within the Consolidated Action Plan for overcoming audit findings. However, IPARD Agency needs certain budget for implementation of the proposed activities.

## **4. Monitoring of the Administrative Capacities of the IPARD Structure**

### **Management Structure**

According to the WLA for 2023 the optimal number of employees in the Management Structure is 19 (including NAO).

The number of employees in the Management Structure at 31<sup>st</sup> December 2022 was 17 (seventeen), including NAO.

During 2023, two employees left from MS and one employee has temporary suspend of the working contract. Additionally, 5 employees were promoted and 1 Junior Associate joined the MS.

The current number of employees in MS is 15 (Including NAO) and the occupancy rate according the WLA for 2023 is 79%.

The Workload Analysis for the period 2024-2026 was prepared and the results of the calculations showed that the optimal number of employees in MS for 2024 is 22 (twenty two).

According to the workload analysis, priority in the forthcoming period is employment of additional 5 (five) people. One employee is already employed in November.

#### *IPARD Agency*

According to the Workload Analysis (WLA) for 2023 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 177. At the beginning of 2023, IPARD Agency numbered 152 employees designated to work in IPARD structure.

According to the Draft WLA analysis of the IPARD Agency for 2024 the optimal number of employees in the Agency is 160, including the measure Investments in Rural Public Infrastructure (IRPI).

Currently, IPARD structure within the Agency numbers 148 employees.

Having in mind the current number of employees, the occupancy rate according the WLA 2023 is 84%.

#### *Managing Authority*

According to the Workload Analysis for 2023, Managing Authority has set optimal level of staff on 17 employees. At the beginning of 2023, MA numbered 13 employees.

During 2023, one employee joined the MA and one employee was promoted to position Head of Unit in the MA.

According this changes, the current number of employees in MA is 14 (Including HoMA) and the occupancy rate is 82%.

The Workload Analysis for the period 2024-2026 was prepared and the results of the calculations showed that the optimal number of employees in MA for 2024 is 15 (fifteen).

#### *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 2023:

Institution	Number of staff on 01.01.2023	Number of staff needed as per WLA 2023	Realized new recruitments by 30.11.2023	Left the position 30.11.2023	Number of current staff	Current occupancy rate	Turnover rate
NAO/NF	17	19	1	3	15	79%	17.65%
IPARD Agency*	152	177	0	4	148	84%	2.63%
Managing Authority	13	17	1	0	14	82%	0.00%
Total	182	213	2	7	177	83%	3.85%

\*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 2023 short term solution for motivation and retention of staff in IPA structures is implemented. The solution provides 15% flat rate top up on the salary of the staff in the IPA structures till the end of 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. The process is raised on regional level as well and has been initially approved by the EC.

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

Till 28<sup>th</sup> November 2023 the executed payments for Community contribution amount were as follows:

- EUR 9 mil for 2023
- EUR 44 mil for total implementation of the programme.

Total declared amount (D1 form) for Community contribution till Q3 2023:

- for 2023 was EUR 7 mil
- for the whole implementation of the programme in amount of EUR 41.39 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:

<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	60.000.000,00
2.	Declared amount till 2023	41.932.592,22
3.	Forecasted amount to be paid in Q4 2023	3.700.000,00
<b>4=1-2-3</b>	<b>Potential De-commitment of funds at the end of 2023</b>	<b>14,367,407.80</b>

Taking into consideration the above stated calculation, the potential risk of de-commitment of funds at the end of 2023 is 14.36 mil EUR.

**Request for extension of N+3 rule for IPARD Programme**

- National Authorities requested extension of payments for IPARD until 31.12.2024 (for one more additional year)
- With the extension of N+3 rule it is expected in 2024 to be paid additional 9,5 million.
- With approving of extension of N+3 rule the realisation of IPARD II programme by the end of 2024 is expected to be EUR 55,1 million, or around 92% implementation.

*Information on functioning of the Management and Control System and Financial  
Implementation of IPARD III*

*December*

*2023*

## **1. Entrustment process of the measures from IPARD III Programme**

The IPARD Programme 2021-2027 has been adopted on 09<sup>th</sup> March 2022.

Financial Framework Partnership Agreement was ratified on 04<sup>th</sup> November 2022.

The Sectoral Agreement for IPARD III (Ref.Ares(2023)162333) has been signed by both parties as of 10.01. 2023 and with nota verbale is notified that the 15 February 2023 is the date of entry into force of the Sectoral Agreement.

According to the Guidelines concerning the entrustment for budget implementation by the Commission, entrustment Request can be officially submitted to EC after Sectoral Agreement.

The management and control system was aligned with the requirements from the new IPA III Financial Framework Partnership Agreement, Sectoral Agreement and IPARD III Programme and Request for entrustment for IPARD III Programme was submitted to DG AGRI services on 5<sup>th</sup> of May 2023.

DG AGRI has officially communicated the IPARD structure review of the request for entrustment of budget implementation tasks for measures 1, 3, 7 and 9 under IPARD III Programme as of 28 July 2023.

Reply Letter to DG AGRI observations and recommendations was submitted by NAO as of 07<sup>th</sup> September 2023.

Financing Agreement was signed on 31.10.2023 and as of signature of the FA the accreditation is granted.

The issues pointed below are remaining as further point of interest and undertaking actions for improvement such as:

- ✓ Continues strengthening of staff capacities;
- ✓ Adoption of retention policy in all IPARD entities;
- ✓ Activities for decreasing delays in contracting and payment to recipients
- ✓ Accreditation of new measures for further increasing of the absorption

### **Accreditation for new measures Investments in Public Rural Infrastructure**

The Ministry of Finance intensively in cooperation with the IPARD structures (the Ministry of Agriculture, Forestry and Water Economy-IPARD Managing Authority and the IPARD Agency) are preparing packages for the accreditation of a new measure from the IPARD III Program - for the measure Investments in public rural infrastructure.

With the accreditation of the measure Investments in public rural infrastructure, 12.55 million euros of IPA funds will be made available to the country, which is

expected to increase the absorption of funds, as well as the realization of infrastructure projects in rural areas.

The Package is in final stage before the submission to the external audit on compliance assessment. Activities need to be implemented as condition and high priority for further continuation of the process of accreditation of this measure are:

- Adoption of the List of eligible expenditure regarding this measure by EC
- Strengthening staff capacities in the IPARD structure (especially NAO/IPARD Agency) before .

### **First public call under IPARD III**

First public call under IPARD III was published on 01<sup>st</sup> of September 2023 and finished on 30 October 2023. Initial information of this public call:

- for measure 1 received 900 applications (per different sectors) with total requested amount of round 51 MIL EUR and
- for measure 7 received 256 applications with requested total requested amount of round 46 MIL EUR.