



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE

BUDGET SUPERVISION OFFICE
OF THE REPUBLIC OF SLOVENIA

ANNUAL CONTROL REPORT

**COOPERATION PROGRAMME INTERREG V-A
Slovenia-Croatia 2014 – 2020**

CCI No 2014TC16RFCB029

**referred to the 7th accounting year
from 1 July 2020 to 30 June 2021**

Final Version



No.: 0621-2/2016/21

Ljubljana, February 2022

1. INTRODUCTION	3
2. SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEM(S)	4
3. CHANGES TO THE AUDIT STRATEGY	5
4. SYSTEM AUDITS	5
5. AUDIT OF OPERATIONS	11
6. AUDITS OF ACCOUNTS	16
7. COORDINATION BETWEEN AUDIT BODIES AND SUPERVISORY WORK BY THE AUDIT AUTHORITY..	19
8. OTHER INFORMATION	19
9. OVERALL LEVEL OF ASSURANCE	20
ANNEX 1 - "RESULTS OF SYSTEMS AUDITS"	21
ANNEX 2 - "RESULTS OF AUDITS OF OPERATIONS"	23
ANNEX 3 - "TABLE OF IRREGULARITIES"	24
ANNEX 4 - "CALCULATION OF RTER" (attached in excell table)	26

1. INTRODUCTION

1.1 Identification of the responsible audit authority and other bodies that have been involved in preparing the report.

Audit Authority (hereinafter AA):

Republic of Slovenia

Ministry of Finance - Budget Supervision Office (hereinafter BSO)

Other European Shared Management Funds Audit Division

Fajfarjeva 33

1000 Ljubljana – Slovenia

The AA is assisted, as envisaged under art. 25 (2) of Regulation (EU) No. 1299/2013, by the Group of Auditors (hereinafter GoA).

The GoA is composed by representatives of AA (above) and Audit Body (hereinafter AB):

Audit Body:

Republic of Croatia

Agency for Audit of European Programmes Implementation System (hereinafter ARPA)

Alexandera von Humboldta 4/V

1000 Zagreb-Croatia

1.2 Indication of the reference period.

The period from 1 July 2020 to 30 June 2021 represents the reference period in accordance with art. 2(29) of Regulation (EU) No.1303/2013

1.3 Indication of the audit period.

The Annual Control Report is referred to the audit work performed in the (audit) period from 1 July 2020 to the date of the submission of it to the EC.

1.4 Identification of the operational programme(s) covered by the report and of its/their managing and certifying authorities.

COOPERATION PROGRAMME INTERREG V-A Slovenia Croatia 2014 – 2020

CCI No 2014TC16RFCB029

Managing Authority (hereinafter MA):

Government Office for Development and European Cohesion Policy

European Territorial Cooperation Division

Cross-border Programmes Management Section

Kotnikova ulica 5

1000 Ljubljana – Slovenia

Certifying Authority (hereinafter CA):

Public Fund of the Republic of Slovenia for Regional Development and Development of Rural Areas (hereinafter SRDF)

Škrabčev trg 9a

1310 Ribnica – Slovenia

1.5 Description of the steps taken to prepare the report.

The report was drafted in accordance with art. 63 (7) of Regulation No.1046/2018 and revised version of Guidance for Member States on ACR and Audit Opinion (Programming Period 2014-2020) and is based on activities envisaged in the audit strategy drawn up by the AA with the support of the GoA.

2. SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEM(S)

2.1 Details of any significant changes in the management and control systems related with managing and certifying authorities' responsibilities.

In November 2021 the MA submitted to the AA the revised version of the Description of the Management and Control System (hereinafter DMCS), which includes changes of the management and control system (hereinafter MCS) referred to the period from November 2020 to November 2021.

In the second part of 2021 some changes of management structure in the frame of the programme have been realized, as follows:

- In May 2021 Mr. Uroš Klopčič has been appointed as the new Head of the Certifying Authority.
- In October 2021 Mrs. Tanja Renner has been appointed as the new Head of the Managing Authority and Mr. Aleš Mrkela as the new Deputy Head of the Managing Authority.
- In October 2021 Mrs. Petra Hiršel-Horvat has been appointed as the new Head of the Joint Secretariat.

The last changes related to the MA/JS are partly related to the organisational changes within the Government Office for Development and European Cohesion Policy (hereinafter GODC) and were implemented in October 2021 as follows:

- The GODC has re-organized ETC and Financial Mechanism Office into new European Territorial Cooperation and Financial Mechanisms Division.
- In the frame of the European Territorial Cooperation and Financial Mechanisms Division two sections are organized:
 - o MA and JS of the CP Interreg SI-HR 2014-2020 work within the Cross-Border Management Section¹.
 - o Slovenian National Authority (hereinafter NA) of the CP Interreg SI-HR 2014-2020 works within the European Territorial Cooperation and Financial Mechanisms Section².
- Slovenian National Control Unit (hereinafter NCU) of the CP Interreg SI-HR 2014-2020 is organized separately in the Control Division, Objective 2 Control Section³.

With regarding to the organizational changes of the GODC considering the MA, JS, NCU and NA in Slovenia as well the changes of the managing structure, AA on base of the desk analysis

¹ Before MA was organized in ETC and Financial Mechanism Office, Cross-Border Programmes Management Division.

² Before NA was organized in ETC and Financial Mechanism Office, European Territorial Cooperation and Financial Division.

³ Before NCU was organized in ETC and Financial Mechanism Office, Control Division ETC, IPA and IFM Programmes.

considers that the changes will not have substantial impact on the functioning of the MCS for the following reasons:

- In major part of the new appointments human resources are involved with several years of work experience in the frame of the INTERREG programmes.
- The changes refer to internal organisational structure of GODC (the work is organised in the frame of the Division/Sections instead of Office/Sections as before), all the implementation and control processes remained unchanged.

The last changes are only of a linguistic nature and it is referred to the official name in English of the internal organisation in the frame of the BSO, and responsible for the audits of the INTERREG programmes: Other European Shared Management Funds Audit Division⁴.

2.2 Information relating to the monitoring of the designated bodies according to Article 124(5) and (6) of Regulation (EU) No 1303/2013.

No information relating to the monitoring of the designated bodies according to art 124(5)(6) of Regulation No. 1303/2013 have been received until the phase of the preparation of this report.

2.3 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 to the audit work are to be indicated.

Please see Chapter 2.1 of the present report.

3. CHANGES TO THE AUDIT STRATEGY

3.1 Details of any changes to the audit strategy, and explanation of the reasons.

The version 1.4 of the audit strategy was updated in May 2021. The common methodology chapter and long-term/mid-term audit plans were updated. No other significant changes have been made to the audit strategy for the CP from the previous version.

3.2 Differentiation between the changes made or proposed at a late stage, which do not affect the work done during the reference period and the changes made during the reference period, that affect the audit work and results.

n/a

⁴ Before AA organizational unit name was Sector for Auditing other Funds under shared Management.

4. SYSTEM AUDITS

4.1 Details of the bodies (including the Audit Authority) that have carried out audits on the proper functioning of the management and control system of the programme – hereafter "system audits".

Audit Authority has performed the planned system audit of specific thematic area – withdrawals and recoveries, and system audit of the Managing Authority/Joint Secretariat/National Authority in the 7th accounting year.

4.2 Description of the basis for the audits carried out, including a reference to the audit strategy applicable, more particularly to the risk assessment methodology and the results that led to establishing the audit plan for system audits.

Taking into consideration that relatively small number of the programme/bodies participate in the MCS and in addition that 2 of them (MA and NCU in Slovenia) are part of the internal organisation of the same institution - Government Office of the Republic of Slovenia for Development and European Cohesion Policy, no risk assessment methodology has been adopted in the Audit Strategy to establish the audit plan for system audits.

Instead of this it will be assured that all the authorities/bodies included in the MCS will be audited at least twice in the programming period. Additionally, the sequence order for the system audits of thematic issues has been created.

Based on this premises the AA in cooperation with AB established the rank list of system audits for period 2018 – 2022 (where the above assurance is fulfilled).

According to the rank list system audits of MA, CA, NCUs in Slovenia and Croatia have been planned and implemented in 2018 and follow-up of these audits except NCU in Croatia⁵ have been performed in 2019.

In 2019, the second system audit of the Control Unit in Croatia⁶ has been planned and concluded. The follow-up of these system audit has been implemented in December 2020 as planned.

In July 2020, according to the rank list, the system audit of specific thematic area on performance data reliability was finalized, and in the period November 2020 - January 2021, the system audit of the CA⁷ has been implemented.

Considering that no substantial changes of the MCS occurred and no specific problem areas were identified during the previous audits, in 2021 system audit of the MA/JS/NA⁸ and system audit of specific thematic area - withdrawals and recoveries have been implemented (please see chapter 4.3 of this report).

⁵ Referred to the System audit of Control Unit within Agency for Regional Development of the Republic of Croatia. Due to the fact, that no important findings and recommendations have been identified by ARPA during the 1st System audit of the Control Unit in Croatia in 2018, no follow-up of system audit has been planned.

⁶ Referred to the System audit of Control Unit within Ministry of regional Development and EU Funds of the Republic of Croatia; the institutional and organisational change of the structure of NCU in Croatia, was limited to merger of ARD (as organisational unit) by the MRDEUF. The change has no impact on the internal organisation of the NCU, where the principal functions of the NCU remain the same.

⁷ The system audit of the CA was carried out for the second time in the programming period 2014-2020.

⁸ The system audit of the MA was carried out for the second time in the programming period 2014-2020.

4.3 Description of the main findings and conclusions drawn from system audits, including the audits targeted to specific thematic areas, as defined in section 3.2 of Annex VII of Regulation (EU) 2015/207.

In the period from 1 of July 2020 until the submission of this report in accordance with the audit plan, the following system audits have been performed by AA:

- System audit of specific thematic area – withdrawals and recoveries (finalized in February 2021),
- System audit of the Managing Authority / Joint Secretariat / National Authority (finalized in June 2021).

In January 2021 the system audit of the Certifying Authority has been finalized by AA. Findings and recommendations of this system audit have been reported in the 6th Annual Control Report in the Chapter 4.3.

The table in annex 1 to this report indicates for each body audited by the AA the assessment related to each key requirement, resulting from the system audits listed above.

Summary of important findings and conclusions of the system audits performed:

System audit of specific thematic area - withdrawals and recoveries

In the period November 2020 – February 2021 the system audit of specific thematic area / withdrawals and recoveries has been implemented by AA. The audit has been performed for all three INTERREG programmes together (CP Slovenia-Austria, CP Slovenia-Hungary, CP Slovenia – Croatia) for which GODC and SRDF have a role as MA and CA.

The audit was subject to verification of compliance of the management and control system at the MA and CA for the audited CPs, more specifically verifying the performance of the subsystem of the withdrawals and recoveries and the accuracy of the reporting of withdrawals and recoveries in the eMS, iCenter⁹, Interim Payment Applications and Annual Accounts issued to EC. In the context of the audit key requirements 1, 5, 9, 12 and 13 were assessed.

No important findings have been detected during the system audit. Based on the audit performed, AA assessed the part of MCS related to withdrawals and recoveries with Category 1: *Works well. No or only minor improvements needed.*

System audit of the MCS of the Managing Authority / Joint Secretariat / National Authority

In the first half of year 2021 the system audit of MA/JS/NA has been implemented by AA. The audit has been performed for all three INTERREG programmes together (CP Slovenia-Austria, CP Slovenia-Hungary, CP Slovenia – Croatia) for which GODC has a role as MA, JS and NA.

The audit was subject to verification of the effectiveness of MCS in the MA, JS and NA for the audited CPs. The audit of the system was carried out for the second time in the programming period 2014-2020. The assessment criteria for all key requirements applicable to the MA/JS/NA from KR 1 to KR 8¹⁰ have been audited and assessed. The following findings have been identified during the audit:

⁹ CA's accounting system

¹⁰ Except KR4 which is related to the system audit of NCU.

KR 1: Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body

<p>Finding No.1:</p> <p>In the time of the audit, the post of Head of the Joint Secretariat has been vacant. The duties of the head of the JS were temporarily performed by the Head of the programme.</p>	<p>Recommendation No.1:</p> <p>It is recommended the appropriate staffing of the position of the Head of the Joint Secretariat as soon as possible, due to the importance of the tasks performed by the Head of the JS in the structure of the CP.</p>
<p>Implementation of the recommendation:</p> <p>In October 2021 the new Head of the Joint Secretariat of the CP was appointed. The recommendation is closed, the auditee has fully implemented the recommendation.</p>	

KR 7: Effective implementation of proportionate anti-fraud measures

<p>Finding No.2:</p> <p>MA did not adequately assess the total gross, net and target risk of fraud in the framework of the self-assessment of fraud risk for individual risks.</p>	<p>Recommendation No.2:</p> <p>MA should re-prepare a self-assessment of fraud risks in accordance with the EC guidelines for fraud risk assessment, with an appropriate self-assessment team whereas, for individual risks, it should properly assess the total gross and net and target risk of fraud, as well as properly assess the management of these risks with existing and possible additional controls.</p>
---	--

KR 8: Appropriate procedures for drawing up the Management Declaration and Annual Summary of the final audit reports and of controls carried out

<p>Finding No.3:</p> <p>In the Annual Summary of controls carried out, in the case of irregularities in the category "Other" and in categories with similar characteristics of irregularities identified by the NCU, in most cases there are no comments about the type or the content of the irregularity.</p>	<p>Recommendation No.3:</p> <p>MA, in cooperation with the NCU should ensure more detailed information, for the purpose of a complete and accurate analysis of identified errors and irregularities, which may allow for appropriate corrective actions.</p>
--	---

<p>Finding No.4:</p> <p>In the Annual Summary of controls carried out, that most irregularities in the "Other" categories and in categories with similar irregularities are classified as administrative errors, which in the annual summary were not considered to be of a temporary nature.</p>	<p>Recommendation No.4:</p> <p>MA in preparation of Annual Summaries should perform an appropriate analysis of irregularities in such a way that the so-called temporary irregularities or administrative errors without financial corrections are classified separately from other identified irregularities by the NCU, in order to ensure more appropriate analysis of irregularities with financial corrections.</p>
--	---

No other important findings have been detected during the system audit.

Based on the audit performed, AA assessed MCS in the Managing Authority with *Category 2: System works, but some improvements are needed.*

4.4 Indication of whether any problems identified were considered to be of a systemic character, and of the measures taken, including a quantification of the irregular expenditure and any related financial corrections, in line with Article 27(5) of Regulation (EU) No 480/2014.

No errors of systemic nature were identified during the system audit.

4.5 Information on the follow-up of audit recommendations from system audits from previous accounting years.

During the period from 1st July 2020 to 31 June 2021 the follow up of system audit of the National Control Unit in Croatia has been performed by AB (finalized in December 2020). Findings and recommendations of this follow-up of system audit have been reported in the 6th Annual Control Report in the Chapter 4.5.

Regarding the fulfilment of the open recommendation from the System audit of Certifying Authority¹¹, in January 2022 the AA carried additional verifications of data in the frame of audit of accounts for 7th accounting year.

KR10: Adequate procedures for drawing-up and submitting Payment Applications

<p>Finding No.1:</p> <p>It was established that in some audited cases in CA certificates no proper audit trail on formal and accounting control in Accountancy is assured.</p>	<p>Recommendation No.1:</p> <p>CA should assure proper audit trail at executing all CA confirmations, taking into consideration also »four eyes principle«.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation.</p>	

¹¹ Please see ACR for 6th accounting year, chapter 4.3.

In the frame of the audit of accounts for 7th accounting year, on the basis of additional data testing of CA confirmations, it was concluded that proper audit trail on formal and accounting control trail at executing CA confirmations exist.

Information on the open recommendations from follow-up of system audits from previous accounting years.

In January 2022 AB has implemented the follow up of an open recommendation from Follow-up of System audit of the MCS of the National Control Unit in Croatia (MRDEUF).

AC 1.2 – Necessary staff and expertise exist at the different levels and for the different functions within the NCU

<p>Finding No.2:</p> <p>ARD employees that have been taken over, covering the function of the NCU in Croatia, have not been officially appointed within the Ministry due to the fact, that job posts they perform have not been envisaged by the MRDEUF organizational structure.</p>	<p>Recommendation No.2:</p> <p>It is recommended the appointment of adequate staff within the MRDEUF ensuring the proper functioning of the NCU in Croatia</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation.</p> <p>Staff has been appointed within the Sector for First Level Control in accordance with the Decree on the Ministry's Internal Organization in force from 31 of August 2020 (NN 97/2020).</p>	

4.6 Description (where applicable) of specific deficiencies related to the management of financial instruments or other type of expenditure covered by particular rules (e.g. State aid, revenue-generating projects, simplified cost options), detected during system audits and of the follow-up given by the managing authority to remedy these shortcomings.

n/a

4.7 Level of assurance obtained following the system audits (low/average/high) and justification.

Overall conclusion by the MCS: BSO as the AA for the CP, on the basis of the results and conclusions of system audit and follow-up of system audit of NCU in Croatia (assessed with Category 1), and of the system audit of CA (assessed with Category 1), and of the system audit of MA (assessed with Category 2), assessed the overall MCS for the CP INTERREG V-A Slovenia Croatia in Category 2 (“System works, but some improvements are needed”).

5. AUDIT OF OPERATIONS

5.1 Indicate the bodies that carried out the audits of operation, including the audit authority.

For the reference period the audits of operations for the CP were carried out by the BSO (in Slovenia) and by the ARPA (AB in Croatia). According to Rules of Procedure of the Group of Auditors, each body prepared the partial reports on performed audits of operations for the beneficiaries (project partners) in the relevant territory of the programme.

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

AA used a non-statistical sampling method to select a sample of operations for the reference period (7th accounting year). According to Audit Strategy the method used by the AA, was defined analysing the characteristics of the population: number of operations (with certified amounts), number of Project Progress Reports and Partner Progress Reports, size (in terms of certified amount per year) and type of operations.

5.3 Indication of the parameters used for statistical sampling and explanation of the underlying calculations and professional judgement applied.

AA used a non-statistical sampling method to select a sample of operations for the reference period (7th accounting year). Please see explanation in Chapter 5.6 of this report.

5.4 Reconciliation between the total expenditure declared in euro to the Commission in respect of the accounting year and the population from which the random sample was drawn.

In the 7th accounting year, the CA declared to the Commission in the frame of the CP the expenditure in the total amount of **24.029.764,65 €**.

The value of the population from which the random sample was drawn¹² corresponds to **24.033.618,28 €** (hereinafter population sampled).

The AA reconciled these two amounts; the difference between the amounts corresponds to the negative amounts identified.

5.5 Where there are negative sampling units, confirmation that they have been treated as a separate population according to Article 28(7) of Commission Delegated Regulation (EU) No 480/2014.

In the frame of the total expenditure relating to a sampling unit for the accounting year six (6) negative sampling units have been identified in the total amount of **3.853,63¹³**. They were excluded from the population and were treated separately.

Analysing the above negative amount, the AA can confirm that it is consistent with amounts of financial corrections registered in the CA's accounting system.

¹² Population without negative amount.

¹³ Negative amounts are related to the operations: SLO-HR50 +Health, SLO-HR5 FRISCO1, SLO-HR81 ECool-Tour, SLO-HR225 Riviera4Seasons2, SLO-HR457 VEZI NARAVE, SLO-HR247 NATURE&WILDLIFE.

5.6 In case of the use of non-statistical sampling, indicate the reasons for using the method in line with Article 127(1) of Regulation (EU) No 1303/2013, the percentage of operations/expenditure covered through audits, the steps taken to ensure randomness of the sample (and thus its representativity) and to ensure a sufficient size of the sample enabling the Audit Authority to draw up a valid audit opinion.

The population sampled in total value of 24.033.618,28 € includes 97 Project Progress Reports¹⁴ which corresponds to 41 operations with expenditures certified in the 7th accounting year.

Considering the size of the population sampled, AA decided to use a non-statistical sampling method in accordance with the Audit Strategy and selected the sample by means of random selection method.

Applying a non-statistical sampling, the sample size is calculated using professional judgment and considering the level of assurance provided by the system audits.

In accordance with the Audit Strategy the following (minimum level) of thresholds is observed in dependence of the level of assurance from the system audits:

Assurance level from the system audit	Recommended coverage	
	on operations	on expenditure declared
Works well. No or only minor improvements needed.	5%	10%
Works. Some improvements are needed.	5%-10%	10%
Works partially. Substantial improvements needed.	10%-15%	10%-20%
Essentially does not work.	15%-20%	10%-20%

For the 7th accounting year the assurance level from system audits was estimated, based on the results¹⁵ of the performed system audits and follow-up of system audits of MA, CA and NCUs.

The Category 2, according to the Methodology included in the Audit Strategy, corresponds to medium-high level of assurance gained from the system, which in terms of the % of population represents, 10% of operations and in terms of expenditure declared 10% of amount of expenditure declared in the 7th accounting year¹⁶. Analysing¹⁷ the population, no “high value” operations were identified. Following the recommended coverage on operations, 5 (4,1) operations were randomly selected¹⁸ in the population of 41 operations. The selected operations are briefly described in the following table:

	Operation	Priority Axes	Certified amount in €	Audited amount in €
1.	SLO-HR486 FRISCO2.2	I	1.372.375,67	1.372.375,67
2.	SLO-HR444 KAŠTELIR	II	599.697,69	599.697,69
3.	SLO-HR457 VEZI NARAVE	II	1.782.705,69	1.782.705,69
4.	SLO-HR445 HITRO	III	530.354,47	530.354,47
5.	SLO-HR192 TA 1 MA/JS	IV	283.337,95	283.337,95
	Total		4.568.471,47	4.568.471,47

¹⁴ Lead Partner level.

¹⁵ Please see the results of system audits in Annex 1.

¹⁶ The minimum coverage in accordance with Art. 127(1) of Regulation (EU) 1303/2013 is observed.

¹⁷ According to calculation for high level operation, it was identified, that in the frame of population no items are above 4.806.723,66 € (24.033.618,28 € total certified amount /5 operations to be selected).

¹⁸ No sub-sampling was applied in the frame of audits of selected operations.

The size of the selected sample corresponds to 19% of total certified expenditure and to 12,20% of number of operations in population for the 7th accounting year. Consequently, the size of selected sample follows the recommended coverage.

5.7 Analysis of the principal results of the audits of operations.

During the audits of operations 20 irregularities (with financial corrections) in the total amount of 13.927,84 € were detected. The following table presents the basic data in relation to the amounts of irregularities detected per operation by the single audit authority and the % of error rate calculated on the level of operation:

	Acronym of operation	Sample/Certified amount (in €)	Total amount of irregularities (in €)	The amount of irreg. (in €) detected by the BSO (Slovenia)	The amount of irreg. (in €) detected by the ARPA (Croatia)	The error rate / audited amount per operation (in %)
1.	SLO-HR486 FRISCO2.2	1.372.375,67	1.163,37	0,00	1.163,37	0,08%
2.	SLO-HR444 KAŠTELIR	599.697,69	111,54	56,76	54,78	0,02%
3.	SLO-HR457 VEZINARAVE	1.782.705,69	12.521,37	484,07	12.037,30	0,70%
4.	SLO-HR445 HITRO	530.354,47	0,00	0,00	0,00	n/a
5.	SLO-HR192 TA 1 MA/JS	283.337,95	131,56	120,00	11,56	0,05%
		4.568.471,47	13.927,84	660,83	13.267,01	

During the audit of the operations “VEZI NARAVE” (PP4: Public Institution National Park Risnjak) and “FRISCO 2.2” (PP2: Croatian Waters) the AB detected the non-financial irregularity with potential risk of the presence of the same type of the irregularity also in other operations approved in the frame of the CP. In the frame of both audits it was established, that specific expenditures¹⁹ were not originally planned in the partner budget of application form and were not introduced in the budget²⁰ during the project implementation.

Project modifications, which are regular during the project implementation, allow the project partner to change budgeted amount of existing cost or even introduce new cost with the approval of the Joint Secretariat.

All expenditures in question were eligible for financing since they were necessary for project activities implementation in line with Implementation Manual for Beneficiaries. However, not introducing these expenditures in the budget as separate sub-budget line, resulted with the impossibility to monitor the sub-budget limit of certain costs and afterwards, the impossibility to track the reallocations between sub-budget lines and budget lines for all programme authorities participating in verification of project expenditures and activities. Therefore, non-financial correction was applied by AB.

Consequently, the AB recommended that MA/JS should ensure that all approved expenditures related to the project activities are specified in the partner budget. Project modifications, made in timely manner, should include audit trail between planned cost and incurred expenditures, to allow effective monitoring and control of project budget realization.

¹⁹ In the case of “VEZI NARAVE” - expenditure for Issuing the occupancy permit for reconstructed dam; In the case of “FRISCO 2.2” – expenditure for Service of expert for the preparation of public procurement tender and expenditure for Publication of the public procurement in the national official gazette.

²⁰ As new sub-budget line under the category External expertise and services through minor modifications of the contract during the project implementation.

MA submitted clarification to the AA/AB, in which they agreed to take the recommendation into account in implementation of the next Call for proposal²¹ in this CP and in the implementation of future Interreg Programme Slovenia-Croatia for the period 2021-2027.

AB (in cooperation with AA) will verify the implementation of above recommendation during the next audits of operations and system audits in the frame of the CP.

The AA analysed the irregularities detected during the audits of operations and concluded that all of them are categorized as random errors. No systemic, known or anomalous errors were found by the AA and AB during the audits.

A brief description of the irregularities detected during audits of operation together with the information on the single operations, project partners, ineligible amounts and type of error are included in the Annex 4(B) of the present report.

The materiality threshold is determined at 2% from the certified eligible expenditure for the 7th accounting year, which amounts to 480.672,37 €.

In the projection of sampling error, the AA applied the “ratio estimation” method²².

The total error rate (TER) (calculated with this method) presents **0,30%** of the amount of the certified eligible expenditure for the 7th accounting year, which corresponds to the amount of 73.270,98 €. Therefore, the materiality threshold is not exceeded.

5.8 Explanations concerning the financial corrections relating to the accounting year and implemented by the certifying authority/managing authority before submitting the accounts to the Commission as a result of the audits of operations, including flat rate or extrapolated corrections.

The financial corrections in absolute value (13.927,84 €), related to the irregularities detected during the audits of operations performed in 2021, have been deducted²³ by CA before submitting the final accounts to the Commission.

5.9 Comparison of the total error rate and the residual total error with the set materiality level, in order to ascertain if the population is materially misstated and the impact on the audit opinion.

As the corrective measures have been taken before the finalization of the ACR, the RTER²⁴ has been calculated. It corresponds to **0,24%** and it is below the materiality level of 2%.

5.10 Information on the results of the audit of the complementary sample.

No complementary sample has been audited in the 7th accounting year.

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

No systemic errors were found by the AA and AB during the audit of operations in the 7th accounting year.

²¹ The last 4th Call for proposal.

²² Please see the calculation of projection method in Annex 3.

²³ Please see also in the Chapter 6.3 of this report.

²⁴ Please see the calculation of RTER in Annex 3.

5.12 Information on the follow-up of audits of operations carried out in previous years, in particular on deficiencies of systemic nature.

No systemic errors were found by AA and AB during the audit of operations in the 6^h accounting year. All financial corrections (731,71 €) related to detected irregularities during the audits of operations performed in 2020 have been deducted by CA before submitting the final accounts for 6^h accounting year to the Commission.

Additional information regarding the irregularity²⁵ detected by AA during the audit of operation “EMERGENCY EuroRegion” in the 6^h accounting year: AA estimated the existence of potential risk of the presence of the same type of the irregularity also in other operations approved in the frame of the CP, therefore AA addressed to the MA the letter, where the additional actions as well the adequate action plan were requested²⁶, in order to avoid the risk of presence of similar type of irregularities also in other operations.

In september 2020 MA/JS submitted clarification to the AA, in which they described the actions taken with regard to the recommendation. They analysed all operations that include investments and constructions works and then gathered informations from the project partners on the share of project financing in the infrastructure and works contracts. In the cases where investments had partial financing from the project and the share was not properly defined, MA called for conclusion of annexes to the contract. MA submitted to the AA the list of all investments and construction works implemented (or in the phase of implementation) by the partners in the frame of all selected operations within CP Slovenia-Croatia. The list contains a data about the status of investments and construction works, that is whether the investments are partly or 100% financed from the project. All the contracts related to investments and construction works with % of co-financing less than 100 were revisited. All the investments with status finalized were implemented properly, as established by National Control Unit during on-the-spot controls. In total in the frame of CP SI-HR, 4 (four) investments had the status partly co-financed and in the phase of implementation. In January 2022, MA informed AA about the status of these investments. For all of them proper annexes (incl. corrigendum on co-financing) were concluded.

Analysing the activities as well the results reported by MA, AA has no sustainable reasons to consider relevant the potential risk on consequences of non-proper definition of the co-financing as described above.

5.13 Conclusions drawn from the overall results of the audits of operations with regard to the effectiveness of the management and control system.

Based on the results of the audits of operations performed we can conclude that the results confirm our assessment of the effectiveness of the management and control system (“System works, but some improvements are needed”/ “Category 2”).

²⁵ In the frame of the audit was established, that partial financing from the project, that was approved for the construction of the SB Izola heliport and the share to be implemented with the project, was not properly defined in the project application form and in the construction contract.

²⁶ Please see the explanation in detail in the 6th ACR in the Chapter 5.7.

6. AUDITS OF ACCOUNTS

6.1 Indication of the authorities/bodies that have carried out audits of accounts.

The audit of accounts for the 7th accounting year have been performed by the Audit Authority for the CP.

6.2 Description of audit approach used to verify the elements of the accounts.

The audit approach, used to verify the elements of accounts defined in Art.137 of Regulation (EU) No.1303/2013, is described as follows.

The AA performed the audits of accounts through:

- audits of operation with the expenditure certified in 7th accounting year in the period May-December 2021;
- the verification of fulfilment of open recommendation from system audit of the CA, which has been performed by the AA in January 2022;
- additional final verifications of audits of accounts in January 2022.

All the procedures for additional final verifications have been performed in accordance with the timesheet defined in the Partnership Agreement between MA, CA and AA for the Interreg V-A Slovenia-Austria, Slovenia-Croatia and Slovenia-Hungary for the programming period 2014-2020, where the following steps have been defined:

- submission of first draft of Annual Accounts for the previous accounting year until 30 November,
- submission of second draft of Annual Accounts for the previous accounting year until 7 January,
- submission of draft of Annual Summary and Management Declaration until 23 January.

6.3 Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the accounts, including an indication on the financial corrections made and reflected in the accounts as a follow-up to the results of the system audits and/or audit on operations.

In accordance with art.29(4) of the Regulation 480/2014 the part of verifications of audit of accounts of the 7th accounting year per CP was implemented also during the additional verifications of data regarding the fulfilment of open recommendation from the second system audit of the Certifying Authority in Slovenia. In the frame of this verification, AA verified and closed recommendation about proper audit trail when executing CA confirmations that needed to be assured²⁷.

In relation to the 7th accounting year 10 interim payment applications have been submitted to the EC.

The final verifications performed by the AA included the reconciliation between the total amount of expenditure declared in the Final Interim Payment Application and the total amount of expenditure declared in 10 Interim Payment Applications submitted by the CA to the EC in the 7th accounting year. The total amount of eligible expenditure declared in the Final Interim

²⁷ please see Chapter 4.5 of this report.

Payment Application corresponds to the cumulative amount of eligible expenditure declared in ten (10) Interim Payment Applications.

The existence of the audit trail from the single amount declared by PP in the Partner Progress Report to the inclusion of it by CA in Interim Payment Application have been checked by the AA (in cooperation with the AB) during the audits of operation. As described in Chapter 5.6, 5 audits of operations were performed, which included 64 Partner Progress Reports.

During the final additional verifications 14 items of expenditure (CA confirmations) have been selected from 10 Interim Payment Applications, with the purpose to verify their existence in the expenditure declared by the Project Partners as well the correctness of the amount paid to them.

Upon this additional checks as well as the checks performed during audits of operation the AA is able to confirm the consistency of data between the Interim Payment Applications and Final Interim Payment Application referred to the 7th accounting year.

The AA reconciled the total amount of eligible expenditure entered in the draft accounts to the total amount of expenditure included in the Payment Applications submitted to the EC. The differences between corresponds to the amount of **24.354,55 €**.

The AA analysed the above amount; it corresponds to the sum of the following final corrections:

- the total amount of 13.927,84 € corresponds to the irregularities detected during audits of operations: “FRISCO 2.2”, “Kaštelir”, “VEZI NARAVE” and “TA 1 MAJS”.
- the amount of 7.971,66 € corresponds to the irregularity detected during NCU desk-check (ex-post certification) of operation “FRISCO 2.3”.
- the amount of 2.455,05 € corresponds to the irregularity detected during NCU on-the-spot-check (ex-post certification) of operation “RIDE&BIKE II”.

The AA considers the CA explanations to be adequate regarding this adjustment, contained in the column G of the Appendix 8 of the Annual Accounts.

In the following table the reconciliation between the amounts declared in the Final Interim Payment Application and amounts included in the Annual Accounts (final version) is presented. In correspondence to the draft version (II) of the Annual Accounts no additional informations have been reported in its final version.

7 th accounting year	Final Interim Payment Application (FIPA)		Annual Accounts (Annex 1)		(Annex 8; FIPA-Annex 1)	
	Total amount of eligible expenditure (in €)	Total amount of the corresponding public expenditure (in €)	Total amount of eligible expenditure (in €)	Total amount of the corresponding public expenditure (in €)	Total amount of uneligible expenditure (in €)	Total amount of the corresponding public expenditure (in €)
	24.029.764,65	23.733.094,51	24.005.410,10	23.709.107,35	24.354,55	23.987,16

The AA analysed the amount of Withdrawals in the Appendix 2 of the Annual Accounts; it corresponds to the sum of the following irregularities:

- 6 amounts (64,50 €, 380,81 €, 78,84 €, 19,64 €, 3.218,93 €, 90,91 €) in total sum of 3.853,63 €, correspond to the irregularities detected during NCU checks of operations “+Health”, “FRISCO1”, “ECool-Tour”, “Riviera4Seasons2”, “VEZI NARAVE” and “NATURE&WILDLIFE”, and are related to 5th and 7th Accounting Year.

The amounts were withdrawn within the 1st, 2nd, 4th and 5th Interim Payment Application, which occurred during the 7th accounting year. The AA considers the reconciliation made by the CA to be adequate concerning amounts presented in Appendix 2 and its consistency with the information in the Annual Summary.

Following provisions of Article 137(2) CPR, no amounts (expenditures) were excluded from the accounts due to ongoing assessment of expenditure's legality and regularity. Also no amounts (expenditures) subsequently were found to be legal and regular and were not included in applications for interim payment relating to 7th accounting year.

In January 2022 the MA submitted the final version of the Management Declaration and the Annual Summary.

In the Annual Summary all the relevant findings related to the system audits and audits of operations are included. The MA analysed them and briefly described the corrective measures, realised or to be realised in the future.

In the second part the MA reported on the work of the NCU, including administrative verifications with the description of the main results and type of errors detected by the NCU's as well the on the spot checks performed by the Slovenian and Croatian NCU's.

The AA compared the reported data in the Annual Summary with the Annual Accounts and the analytical evidences available in the eMS. No inconsistency has been identified during this verifications.

The AA also analysed the Management Declaration. For this purpose the AA compared the statements declared by the MA with the results of the system audits, the audits of operations and audit of accounts as well as the information on the results of first level controls included in the Annual Summary of Controls 2021.

Based on these documents the AA can conclude that the audit work performed is not reducing the assurance of the statements declared by the MA in the Management Declaration.

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

No systemic errors were found by the AA and AB during the audit of operations, system audit and follow-up of system audits in the 7th accounting year.

7. COORDINATION BETWEEN AUDIT BODIES AND SUPERVISORY WORK BY THE AUDIT AUTHORITY

7.1 Description of the procedure for coordination between the audit authority and any audit body that carries out audits.

Due to the COVID-19 epidemic, BSO as the AA launched the written procedure via e-mail to approve the audit sample of operations and change the audit strategy together with ARPA as the AB in May 2021, and therefore AA did not organize the meeting of GoA as usually in the first quarter of the year.

The AB agreed with the sample of operations for the 7th accounting year²⁸. All audits were performed by the AA and AB based on the common methodology for system audits and audits of operation approved by GoA for the CP and part of the Audit Strategy.

Based on the results of the single audits the BSO as the AA for CP prepared this Annual Control Report, approved by GoA by written procedure on the 28th of January 2022.

7.2 Description of the procedure for supervision and quality review applied by the audit authority to such audit body(ies).

Please see explanation in the chapter above (7.1).

8. OTHER INFORMATION

8.1 Where applicable, information on reported fraud and suspicions of fraud detected in the context of the audits performed.

In the context of the audits performed by the AA (in cooperation with the AB) in the 7th accounting year, no fraud or suspicions of fraud have been detected.

8.2 Where applicable, subsequent events occurred after the submission of the accounts to the audit authority and before the transmission of the annual control report.

No events that could affect the amounts disclosed in the accounts occurred after the submission of the accounts to the Audit Authority and before the transmission of the Annual Control Report and the drawing-up of the audit opinion.

System audit of NCU in Slovenia

Additional information about the audit work in relation to system audits is that in January 2022 the AA started system audit of NCU²⁹ in Slovenia. The results obtained from this system audit will be included in the relevant system audit report and the 8th Annual Control Report.

Information about impact on Audit work due to COVID-19 epidemic

COVID-19 epidemic did not have important impact on audit work of both AA and AB in 2021. Audit sample approval and Audit strategy update were implemented with written procedure via e-mail. All planned on-the-spot checks regarding audit of operations (field audits) were concluded. System audit of the MA and the system audit of withdrawals and recoveries were

²⁸ The AA agreed with the MA and CA to anticipate the final data of certification per single accounting year. In accordance with the Partnership agreement the final data of the certification is defined on 10 April n-accounting year.

²⁹ The system audit of the NCU is carried out for the second time in the programming period 2014-2020.

implemented on the desk-based audit work³⁰. Therefore, all audits of operations and system audits were implemented in time according to audit plan.

9. OVERALL LEVEL OF ASSURANCE

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

In the preparation of the audit opinion for the 7th accounting year the AA took into consideration the results of the performed system audit of the MA carried out during this accounting year and NCU in Slovenia, carried out during previous accounting years (all assessed with Category 2), and of system audit and follow-up of system audit of NCU in Croatia (assessed with Category 1), and of system audit of CA (assessed with Category 1), and of system audit of specific thematic area - withdrawals and recoveries (assessed with Category 1), the results of the audits of operations as well as the additional final audits of accounts performed by the AA in December 2021 - January 2022.

Based on the results obtained from the system audits and follow-up of system audits of the MA, CA and NCUs in both countries, the AA assessed the overall MCS for the CP with Category 2 ("System works, but some improvements are needed").

During the audits of operation, the irregularities in the total amount of 13.927,84 € have been identified; upon these results, the TER calculated corresponds to the **0,30%** of the amount of the certified eligible expenditure for the 7th accounting year, and it is below the materiality level of 2%.

Concerning the irregularities detected during audits of operation, the corrective measures have been implemented by the MA before the final version of the ACR.

The RTER calculated upon the corrections applied corresponds to **0,24%**.

Performing the additional final verifications on annual accounts no important inconsistencies have been found.

Based on these partial conclusions on audit work performed in 2021 by the AA in cooperation with AB, the AA provides reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts.

Considering that the MCS is classified in Category 2 and the TER is below the materiality level of the 2%, the AA expresses the unqualified opinion.

9.2 Assessment of any mitigating actions implemented, such as financial corrections and assessment of the need for any additional corrective measures necessary, both from a system and financial perspective.

Concerning the irregularities detected during audit work, only random irregularities (financial corrections) have been identified, therefore corrective measures have been implemented by MA and CA before the final version of this report.

³⁰ The examination of documentation of system audits were carried out with the help of IT system eMS.

ANNEX 1 - "RESULTS OF SYSTEMS AUDITS"

Audited Entity	Fund (Multi-funds OP)	Title of the audit	Date of the final audit report	Operational Programme: [CCI No 2014TC16RFCB029, CP INTERREG V-A Slovenia Croatia 2014 – 2020]													Overall assessment (category 1, 2, 3, 4) [as defined in Table 2-Annex IV of Regulation (EU) No 480/2014]	Comments	
				Key requirements (as applicable) [as defined in Table 1- Annex IV of Regulation (EU) No 480/2014]															
				KR 1	KR 2	KR 3	KR 4	KR 5	KR 6	KR 7	KR 8	KR 9	KR 10	KR 11	KR 12	KR 13			
NCU SLO	ERDF	<i>Follow-up of System audit of the Control Unit in Slovenia</i>	March 2019	2	³¹ /	/	2	2	1	/	/							2	
MA / JS	ERDF	<i>System audit of specific thematic area -performance data reliability</i>	July 2020	1	1	1	1	1	1	/	/							1	
NCU CRO	ERDF	<i>Follow-up of System audit of the Control Unit in Croatia</i>	December 2020	¹³²	/	/	1	1	1	/	/							1	
CA ³³	ERDF	<i>2nd System audit of the Certifying Authority</i>	January 2021										1	2	1	1	1	1	
MA / CA	ERDF	<i>System audit of specific thematic area - withdrawals and recoveries</i>	February 2021	1	/	/	/	1	/	/	/	1	/	/	1	1		1	

³¹ KR 2, 3, 7 and 8 were not part of NCU SLO system audit.

³² Assessment of KR 1 was part of 2nd System audit; Assessment of KR 4, 5 and 6 were part of 1st System audit.

³³ Second system audit of CA in the perspective 2014-2020.

ANNEX 2 - "RESULTS OF AUDITS OF OPERATIONS" – 7th accounting year

Fund	Programme CCI number	Programme title	A	B		C		D	E	F	G	H	I
			Amount (in €) corresponding to the population from which the sample was drawn	Expenditure in reference to the accounting year audited for the random sample		Coverage of non-statistical random sample							
	Amount	%	% of oper. covered	% of expend. covered									
ERDF	No 2014TC16R FCB029	INTERREG V-A SI HR	24.033.618,28	4.568.471,47	19,00	12,20	19,00	13.927,84	0,30%	13.927,84	0,24%	N/A	N/A

ANNEX 4 (B) - "TABLE OF IRREGULARITIES"

Nr	Acronym	Project ID	Audited amount per operation (in €)	Country	Partners name (LP/PP)	Audited Expenditure per PP (in €)	Irregular expenditure	Area of errors	Description of irregularity	Type of irregularity	Type of error (random, systematic anomaly)	Financial correction proposed
1	Frisco 2.2	SLO-HR486	1.372.375,67	HR	Hrvatske vode (PP2)	1.353.671,55	1.163,37	Public Procurement	Use of award criterion not related to the subject-matter of the procurement	Ineligible expenditure	Random error	1.163,37
Frisco 2.2 - TOTAL												1.163,37
2	KAŠTELIR	SLO-HR444	599.697,69	SI	Občina Komen (LP)	120.384,61	13,44	Travel and accomodation	Incorrect calculation of travel costs	Ineligible expenditure	Random error	13,44
					Javni zavod Komenski Kras (PP9)	36.883,05	10,71	Travel and accomodation	Expenditure outside of the eligibility area	Ineligible expenditure	Random error	10,71
							24,00	Travel and accomodation	Incorrect calculation of daily allowance	Ineligible expenditure	Random error	24,00
							8,61	Travel and accomodation	Incorrect calculation of travel costs	Ineligible expenditure	Random error	8,61
				HR	Istarska županija (PP5)	59.949,40	13,11	Travel and accomodation	Incorrect calculation of daily allowance	Ineligible expenditure	Random error	13,11
					Općina Mošćenička Draga (PP10)	47.716,73	41,67	Travel and accomodation	Incorrect calculation of travel costs	Ineligible expenditure	Random error	41,67
KAŠTELIR - TOTAL												111.54

3	TA 1 MA/JS	SLO- HR192	283.337,95	SI	Služba Vlade Republike Slovenija za razvoj in evropsko kohezijsko politiko (LP)	255.676,41	120,00	Travel and accomodation	Travel costs not related to the project	Ineligible expenditure	Random error	120,00
				HR	Ministarstvo regionalnoga razvoja i fondova Europske unije (PP2)	27.661,55	11,56	Travel and accomodation	Incorrect calculation of daily allowance	Ineligible expenditure	Random error	11,56
TA 1 MA/JS - TOTAL											131.56	
4	VEZI NARAVE	SLO- HR457	1.782.705,69	SI	Občina Grosuplje (LP)	511.542,59	322,98	Staff costs including 15% flat rate office and administration costs	Incorrect calculation of staff costs	Ineligible expenditure	Random error	322,98
							34,04	Travel and accomodation	Incorrect calculation of travel costs	Ineligible expenditure	Random error	34,04
							60,36	Travel and accomodation	Expenditure for person not directly related to a project	Ineligible expenditure	Random error	60,36
					Zavod Republike Slovenije za varstvo narave (PP3)	157.281,18	66,69	Travel and accomodation	Incorrect calculation of travel costs	Ineligible expenditure	Random error	66,69
				HR	Javna ustanova Nacionalni park Risnjak (PP4)	132.212,17	2.391,23	Infrastructure and works	Double financing of equipment	Ineligible expenditure	Random error	2.391,23
							23,15	Travel and accomodation	Incorrect calculation of daily allowance	Ineligible expenditure	Random error	23,15
					Grad Vrbovsko (PP5)	71.064,07	6.343,23	Staff costs including 15% flat rate office and administration costs	Incorrect application of staff cost flat rate	Ineligible expenditure	Random error	6.343,23
					Udruga Hyla (PP6)	131.266,36	133,78	Travel and accomodation	Incorrect calculation of daily allowance	Ineligible expenditure	Random error	133,78

						2.315,46	Public Procurement	Failure to describe in sufficient detail the award criteria and their weighting.	Ineligible expenditure	Random error	2.315,46	
					Javna ustanova za upravljanje zaštićenim dijelovima prirode Krapinsko-zagorske županije (PP7)	202.173,26	780,45	Staff costs including 15% flat rate office and administration costs	Overtime cost not related to the project	Ineligible expenditure	Random error	780,45
							50,00	Travel and accomodation	Incorrect calculation of daily allowance and fuel costs	Ineligible expenditure	Random error	50,00
VEZI NARAVE -TOTAL											12.521,37	
Total irregular expenditure (in €)											13.927,84	

ANNEX 3 - "CALCULATION OF RTER" (attached in excel table)

ANNEX 4 (A) - "TYPES OF FINDINGS" (attached in excel table)