



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 9th accounting year
from 1 July 2022 to 30 June 2023**

Final Version



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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 also BSO)

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 (hereinafter AB):

Republic of Croatia

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

Alexandera von Humboldta 4/V

1000 Zagreb-Croatia

1.2 Indication of the reference period.

The period from 1 July 2022 to 30 June 2023 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 2022 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):

Ministry of Cohesion and Regional Development in the Republic of Slovenia (MCRD)

Interreg and Financial Mechanisms Office

Cross-border Programmes Management Division

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. 127 (5) of Regulation No.1030/2013 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.

For the preparation of this report, the AA in collaboration with AB conducted the following activities during the period outlined in section 1.3 of this report:

- Follow-up of system audit of CU in Slovenia, as described in chapter 4 of the report,
- Audits of operations, as described in chapter 5 of the report,
- Audit of Accounts, as described in chapter 6 of the report,
- Compliance verification of Management Declaration and the Annual Summary, as described in chapter 6 of the report.

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 December 2022 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 December 2021 to December 2022. DMCS was not revised until the submission of this report.

In January 2023 the Government Office for Development and European Cohesion Policy in the Republic of Slovenia was abolished and reorganized into Ministry of Cohesion and Regional Development, that was fully established in April 2023. The internal organizational structure within Ministry remains the same as was in GODC. MA and JS of the CP Interreg SI-HR 2014-2020 work within Cross-Border Programmes Management Division and Slovenian National Authority (NA) works within the Interreg Division, both divisions are organized in the frame of the Interreg and Financial Mechanisms Office. Slovenian Control Unit (CU) of the CP Interreg SI-HR 2014-2020 is organized separately in the Control and Evaluation Division, Objective 2 Control Section.

During the same period, Mr. Aleš Mrkela has been appointed as the new Head of the Cross-Border Programmes Management Division and Managing Authority.

With regarding to the establishing of the MCRD considering the MA, JS, CU and NA in Slovenia as well the changes of the managing structure, AA on base of the desk analysis considers that changes will not have substantial impact on the functioning of the MCS.

In March 2023 Mrs. Patricija Pergar has been appointed as the Head of the Audit Authority¹. Due to some internal organisational changes (not referred to the INTERREG Programmes) the name of division responsible for the audit of INTERREG Programmes changed into European Shared Management Funds Audit Division².

¹ Mrs. Patricija Pergar was appointed as Director of the BSO (Previously, she was appointed as Acting Director).

² Before AAs organizational unit name was Other European Funds and Mechanisms audit Division.

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 1.6 of the audit strategy was updated in May 2023. The update of the Audit Strategy did not include any change to the sampling method used for the audit of operations. The 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, except the update of the organizational changes of the MA/JS/CU (please see chapter 2.1).

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. 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 follow-up of the system audit of control unit in Slovenia in the 9th accounting year (for details please see chapter 4.5 of this report).

No other system audits or follow-up of system audits were implemented in the 9th 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/JS and CU in Slovenia) are part of the internal organisation of the same institution - Ministry of Cohesion and Regional Development³, no risk

³ Before 2023 - Government Office of the Republic of Slovenia for Development and European Cohesion Policy

assessment methodology has been adopted in the Audit Strategy to establish the audit plan for system audits.

Instead of this it is assured that all the authorities/bodies included in the MCS are 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, CUs in Slovenia and Croatia have been planned and implemented in 2018 and follow-up of these audits, except CU in Croatia⁴ have been performed in 2019.

In 2019, the second system audit of the Control Unit in Croatia⁵ has been planned and concluded. The follow-up of these system audit has been implemented in December 2020.

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 CA⁶ has been implemented.

In 2021 system audit of the Managing Authority⁷ and system audit of specific thematic area - withdrawals and recoveries have been implemented.

In 2022, a system audit of the CU⁸ in Slovenia has been implemented for the second time in the programming period (please see chapter 4.3 of this report).

Considering that no substantial changes of the MCS occurred and no specific problem areas were identified during the previous audits, in July 2023, follow-up of the system audit of CU in Slovenia has been implemented (please see chapter 4.5 of this report).

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 1st of July 2022 until the submission of this report the System audit of control unit in Slovenia was finalized in August 2022. Findings and conclusions of the abovementioned system audits are included in the Annual Control report of the 8th Accounting period.

⁴ 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.

⁵ 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 CU 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 CU, where the principal functions of the CU remain the same.

⁶ The system audit of the CA was carried out for the second time in the programming period 2014-2020.

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

⁸ It was agreed with the AB that system audit of CU in Croatia will not be implemented for the second time in the programming period. AB has already implemented the second system audit of CU, due to the institutional and organizational changes of CU in Croatia, and after the follow-up audit the AB assessed the CU in category 1. However, it was also agreed with the AB, that system audits of all CUs (in Slovenia and Croatia) will be implemented at the beginning of the implementation of the new programming period, considering the significant change of control procedures (risk assessment /sample of controls).

The table in Annex 1 to this report indicates for each body audited by the AA and AB the assessment related to each key requirement, resulting from the system audits and follow-up of system audits performed in 9th accounting year and previous accounting years.

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.

Audit Authority has concluded planned follow-up of the system audit of control unit⁹ in Slovenia in the first half of year 2023 (finalized in July 2023).

Follow-up of the System audit of the MCS of the Control Unit in Slovenia

KR 1: Adequate separation of functions and monitoring of delegated tasks

<p>Finding No.1:</p> <p>The position of the head of the Objective 2 Control Section is vacant. The tasks of the head of the Section are temporarily performed by the controller within the Objective 2 Control Section.</p>	<p>Recommendation No.1:</p> <p>AA recommends CU that, due to the importance of the tasks performed by the Head of the Control Section, the post should be filled as soon as possible.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed since the auditee has implemented the recommendation.</p>	
<p>Finding No.2:</p> <p>CUs internal manuals are deficient in the part that relates to the closure and monitoring of the sustainability of projects and the monitoring of irregularities and other findings within the framework of management verifications.</p>	<p>Recommendation No.2:</p> <p>AA recommends MA and CU to supplement the internal manuals and upgrade the system in such a way that it will ensure proper handling of all tasks.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation remains open. The auditee has explained that it will take into account recommendations regarding the monitoring of irregularities and findings in the context of management verifications and the keeping of appropriate records, when preparing internal manuals for the new programming period 2021-2027.</p>	

⁹ The audit has been performed for all three Interreg programmes together (CP Slovenia-Austria, CP Slovenia-Hungary, CP Slovenia – Croatia) for which MCRD has a role as CU and JS.

KR 4: Adequate management verifications

<p>Finding No.3:</p> <p>AA found that CU did not establish adequate procedures for checking possible double funding.</p>	<p>Recommendation No.3:</p> <p>CU should revise the internal manuals and upgrade the system in such a way that the risk of double financing and an audit trail of the performed checks are adequately ensured.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation remains open. The auditee has explained that it will take into account recommendation regarding the verification of double funding in the context of management verifications when preparing internal manuals for the new programming period 2021-2027, as it has already verified all reports for this programming period.</p>	
<p>Finding No.4:</p> <p>AA found that in some cases the checklists do not provide an adequate audit trail of the controller's work.</p>	<p>Recommendation No.4:</p> <p>CU should give guidelines in the internal manuals on how the controller should ensure the proper audit trail of the controller's work in the checklist.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation remains open. The auditee has explained that it will take into account recommendation regarding the comprehensive audit trail of the controller's work in the checklist in the context of management verifications when preparing internal manuals for the new programming period 2021-2027.</p>	
<p>Finding No.5:</p> <p>The risk analysis for the selection of the on-the-spot check sample was not properly timed, justified and documented.</p>	<p>Recommendation No.5:</p> <p>AA recommends CU that, in the future, when preparing and performing a risk analysis, it considers the provisions of the Guidelines for management verifications and ensures an appropriate time frame, justification of the criteria and a proper audit trail.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation remains open, however it is not relevant anymore, as all the on-the spot checks were already implemented.</p>	

<p>Finding No.6:</p> <p>AA found that from the documentation of the on-the-spot checks carried out, there is no adequate audit trail on certain management verifications, and there is not enough information on the scope of the checks.</p>	<p>Recommendation No.6:</p> <p>CU should provide all relevant information about on-the-spot checks in checklists and in eMS.</p>
<p>Implementation of the recommendation: The recommendation is partly closed. The CU has provided all relevant files and documents about on-the-spot checks in eMS. However, checklists still do not contain sufficient information about the scope of the on-the-spot checks.</p>	

KR 5: Adequate audit trail

<p>Finding No.7:</p> <p>AA found that in some cases eMS does not include all the documentation related to the controller's work within the CU and JS attachments, which results in a deficient audit trail.</p>	<p>Recommendation No.7:</p> <p>AA recommends CU and JS to include in eMS all documentation related to verifications, as well as documentation which controllers and JS contract managers have on their shared drives.</p>
<p>Implementation of the recommendation: The recommendation is partly closed. The CU has provided all documentation from their shared drives related to verifications in eMS. However, JS did not provide explanations regarding the deficient audit trail.</p>	

Audit Authority will check implementation of all open recommendations from the Follow-up of the System audit of CU in Slovenia in the last accounting period during the closure audit, and in connection with system audit of CU in new programming period 2021-2027.

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 CU in Croatia (assessed with Category 1), and of the second system audit of CA (assessed with Category 1), and of the second system audit of MA (assessed with Category 2), and of the follow-up of the second system audit of CU in Slovenia (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 (9th 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 (9th 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 9th accounting year, the CA declared to the Commission in the frame of the CP the expenditure in the total amount of **1.955.926,05 €**. The value of the population from which the random sample was drawn corresponds to **1.955.926,05 €** (hereinafter population sampled).

The values of population sampled, and the total amount of expenditure declared to CP are the same, due to the absence of negative sampling units.

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.

No negative sampling units in population for 9th accounting year have been identified.

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 1.955.926,05 € includes 13 Project Progress Reports¹⁰ which corresponds to 7 operations with expenditures certified in the 9th accounting year.

¹⁰ Lead Partner level.

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 9th accounting year the assurance level from system audits was estimated, based on the results¹¹ of the performed system audits and follow-up of system audits of MA, CA and CUs.

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 (min) 10% of operations and in terms of expenditure declared 10% of amount of expenditure declared in the 9th accounting year¹².

Following the recommended coverage, the sample was selected¹³ in two steps, as follows:

- In the first step, analysing the population, 1 operation with the total certified amount significantly above the average amount, “SLO-HR489 FRISCO 2.3” with the respective amounts of certified expenditures: 1.358.281,56 €, has been identified¹⁴. Analysing the mentioned operation¹⁵, as well the remaining population, the AA on base of the professional judgement selected in this first phase the operation “**SLO-HR489 FRISCO 2.3**”.
- In the second step, 1 operation from the remaining part of population has been randomly selected (SLO-HR198 TA 2 CA).

The selected operations are briefly described in the following table:

	Operation	Priority Axes	Certified amount in €	Audited amount in €
1.	SLO-HR489 FRISCO 2.3	I	1.358.281,56	1.358.281,56
2.	SLO-HR198 TA 2 CA	IV	56.085,94	56.085,94
	Total		1.414.367,50	1.414.367,50

¹¹ Please see the results of system audits in Annex 1.

¹² The minimum coverage in accordance with Art. 127(1) of Regulation (EU) 1303/2013 is observed.

¹³ No sub-sampling was applied in the frame of audits of selected operations.

¹⁴ high value operations - above 977.963,03 € (1.955.926,05 € total certified amount / 2 operations to be selected).

¹⁵ The AA analysed the population and found that 1 operation with significantly above the average certified amount, represent appr. 69 % of total certified expenditure of the population, while the remaining operations were certified on average appr. 100.000 €. Operation “FRISCO 2.3” has not yet been selected until the 9th accounting year.

The size of the selected sample corresponds to **72,3 %** of total certified expenditure and to **28,6 %** of number of operations in population for the 9th 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 5 irregularities (with financial corrections) in the total amount of **197.158,43 €** 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-HR489 FRISCO 2.3	1.358.281,56	197.116,14	196.837,64	278,50	14,51%
2.	SLO-HR198 TA 2 CA	56.085,94	42,29	42,29	0,00	0,08%
	Total	1.414.367,50	197.158,43	196.879,93	278,50	

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

The irregularity with the highest financial correction is described in detail below:

During the audit of the operation "FRISCO 2.3" (SLO-HR489; Slovenian partner PP2: Direkcija RS za vode) the AA detected the following irregularity.

Two open procedures of public procurement were conducted, namely the implementation of construction measures on the Drava and Kolpa rivers. In both cases, after meeting the conditions for participation, the criterion for selecting the most advantageous offer was applied. In the first procedure, the contractor selected was DRAVA Water Management Company Ptuj d.o.o. In the second case, Hidrotehnik d.d. was selected as the leading partner within the "Joint Venture" together with the partner DRAVA Water Management Company Ptuj d.o.o.

In both procedures, appropriate references were required within the conditions for participation, including references for the construction manager. In both selected contractors, Mr. Veronek¹⁶ was appointed as the construction manager, fulfilling the necessary qualifications.

In the case of the Drava River project, Mr. Veronek transferred construction manager responsibilities to Mr. Horvat, and in the Kolpa River project, Mr. Veronek transferred duties to Mr. Kern. Despite requests for clarification, adequate evidence was not provided for both replaced construction managers to verify compliance with tender conditions or appropriate

¹⁶ Employed at DRAVA Water Management Company Ptuj d.o.o.

references (among other at least one (1) successfully completed construction according to FIDIC contractual provisions).

In the context of the both audited public procurements, it was found that the contractor (subcontractor) DRAVA Water Management Company Ptuj, in all construction phases, employed substitute construction managers who did not meet the references set by the contracting authority as a condition for selecting the provider in each public procurement procedure.

It was concluded that in both cases a significant change to the contract in accordance with the Article 95 of the Public Procurement Act¹⁷ was identified. By changing the construction manager, the requirement for meeting specific references/qualifications for the construction manager in the public procurement was not ensured. Consequently, the conditions were subsequently created during the execution of the contract that could have allowed a broader range of bidders to participate and potentially the acceptance or selection of another provider, without the required references/qualifications for the construction manager within the original procurement procedure.

Considering the identified irregularity, the guidelines of the EC for determining financial corrections¹⁸ specify a flat-rate financial correction of 25% of the certified expenditure value, resulting in a correction of 196.145,22 €¹⁹.

In December 2023, based on the irregularity detected, the MA submitted letter with additional clarification to the AA, in which they described the actions taken to avoid the risk of presence of similar type of irregularity also in other operations approved in the frame of the CP for the entire programming period.

In the first step the MA/JS identified the potential risky operations, which include investments in constructions works; following this activity the list of 16 operations was defined by the JS, out of which 31 investments in constructions works were implemented.

In the next step MA requested Slovenian and Croatian national controllers to perform desk verifications of the relevant documents entered in the eMS and submitted by beneficiaries and to supplement the sent list with the following information: on whether the respective investment or public procurement required a construction manager, whether references were required for them, whether the construction manager meets these requirements, whether the construction manager performed this role in the implementation phase, and whether there has been a change in the construction manager, and in the event of a change in the construction manager, are the same data as for the original construction manager provided. In the frame of above-mentioned investments, construction manager was replaced in three (3) cases during the implementation phase.

During the desk verifications performed by the JS and CUs, no similar irregularities have been identified. AA implemented additional verifications on the controllers work performed, and analysing the activities as well as the results reported by MA/JS, AA has no sustainable reasons to consider relevant the potential risk of existence of the similar type of irregularities also in other operations approved in the frame of CP.

¹⁷ Public Procurement Act – ZJN-3 (Official Gazette of the Republic of Slovenia, No. 91/15 of 30.11.2015) with amendments.

¹⁸ Guidelines for determining financial corrections to be made to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement (COCOF_13_9257), Type of irregularity nr.23.

¹⁹ 10% flat rate for staff costs and 15% flat rate for administrative costs included.

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 9th accounting year, which amounts to 39.118,52 €.

In the projection of sampling error, the AA applied the “ratio estimation” method²⁰.

The total error rate (TER) (calculated with this method) presents **10,1%** of the amount of the certified eligible expenditure for the 9th accounting year, which corresponds to the amount of 197.566,78 €, and it is above the materiality threshold.

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 total amount of **197.158,43 €**, related to the irregularities detected during the audits of operations performed in 2023, have been deducted by CA before submitting the final accounts to the Commission. No additional amount of correction to reduce residual risk to materiality level was applied (Please see also in the Chapter 5.9 of this report).

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.

The total error rate (TER) presents 10,1% of the amount of the certified eligible expenditure for the 9th accounting year. As the irregular amount (197.158,43 €) has been deducted from the Annual Accounts before the finalization of the ACR, the **RTER**²¹ has been calculated. It corresponds to **0,0232%** and it is below the materiality level of 2%.

No additional financial correction (extrapolated correction) to bring the RTER to materiality level was necessary due to the fact that calculated RTER²² is below the 2%.

Considering that the RTER is below 2%, whereas the TER was above 5% before the deduction of the financial correction, according to the Guidance for MS on the Annual Control Report and Audit Opinion²³, AA expresses qualified audit opinion with significant impact on the functioning of the Management and Control System.

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

No complementary sample has been audited in the 9th accounting year.

²⁰ Please see the calculation of projection method and calculation of TER in Annex 3.

²¹ Please see the calculation of RTER in Annex 3.

²² The irregularity with the highest financial correction was identified in the “High value” operation (no extrapolation of the error needed).

²³ When TER is above 2%, and if Management and Control System is in category 1 or 2, this indicates that, despite the positive assessment resulting from the system audits carried out by the AA/AB, the Management and Control System (MCS) is in practice not sufficiently effective in preventing, detecting, and correcting irregularities. A qualified audit opinion is therefore generally deemed appropriate for the MCS. A qualified opinion with significant impact should be disclosed when the MCS was assessed in category 3 and/or the TER is above 5%. However, the qualification can be limited to the MCS where the RTER was brought to 2% or below through appropriate (individual and/or extrapolated) financial corrections before the assurance package is submitted to the Commission.

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 9th accounting year.

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 8th accounting year. All financial corrections (33.498,76 €) related to detected irregularities during the audits of operations performed in 2022 have been deducted by CA before submitting the final accounts for 8th accounting year to the Commission.

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”).

6. AUDITS OF ACCOUNTS

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

The audit of accounts for the 9th 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 9th accounting year in the period May-November 2023;
- additional final verifications of audits of accounts in January 2024.

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 draft of Annual Accounts for the previous accounting year at the beginning of January this year,
- 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 relation to the 9th accounting year 2 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 2 Interim Payment Applications submitted by the CA to the EC in the 9th accounting year. The total amount of eligible expenditure declared in the Final Interim Payment Application corresponds to the cumulative amount of eligible expenditure declared in two (2) 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, 2 audits of operations were performed, which included 4 Partner Progress Reports.

During the final additional verifications 4 items of expenditure (CA confirmations) have been selected from 2 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 9th 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 **197.158,43 €**.

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

- the total amount of 197.116,14 € corresponds to the irregularities detected during audit of operation "FRISCO 2.3".
- the total amount of 42,29 € corresponds to the irregularities detected during audit of operation "TA 2 CA".

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 (I) of the Annual Accounts no additional informations have been reported in its final version.

9 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 €)
	1.955.926,05	1.955.926,05	1.758.767,62	1.758.767,62	197.158,43	197.158,43

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 9th accounting year.

In January 2024 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 CUs, including administrative verifications with the description of the main results and type of errors detected by the CUs as well the on the spot checks performed by the Slovenian and Croatian CUs.

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 2023.

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 9th 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.

In April 2023, with written procedure, AA and AB agreed with the sample for audit of operations for the 9th accounting year²⁴ and the audit plan regarding the implementation of the system audit of control unit. 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 12 February 2024.

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 9th accounting year, no fraud or suspicions of fraud have been detected.

In the context of the implementation of the financial corrections deriving from European Commission or European Court of Auditors audits, AA confirms that no such audits and therefore no financial corrections took place in the 9th accounting year.

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.

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 9th accounting year the AA took into consideration the results of the performed system audit of the MA carried out during previous accounting year and of the follow-up of the system audit of CU in Slovenia, carried out during this accounting year (both assessed with Category 2), and of system audit of CU in Croatia

²⁴ 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.

(assessed with Category 1), and of system audit of CA (assessed with Category 1), and of 2 system audits of specific thematic area - performance data reliability and of withdrawals and recoveries (both 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 January 2024.

Based on the results obtained from the system audits of the MA, CA and CUs 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 197.158,43 € have been identified; upon these results, the **TER** calculated corresponds to the **10,1 %** of the amount of the certified eligible expenditure for the 9th accounting year.

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

The **RTER** calculated upon the corrections applied corresponds to **0,0232%** and it is below the materiality level of 2%.

Before submitting the ACR, regarding the highest irregularity identified in the audit sample, action plan was prepared and additional verifications were performed by the JS and CUs, whereas no similar irregularities have been identified. Analysing these activities, AA has no sustainable reasons to consider relevant the potential risk of existence of the similar type of irregularities also in other operations approved in the frame of CP.

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

Based on these partial conclusions on audit work performed in 2023 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 above the materiality level of the 2%, and after financial correction applied the RTER is brought below the materiality level, according to the Guidance for MS on the Annual Control Report and Audit Opinion, AA expresses:

- 1. unqualified audit opinion on the accounts.*
- 2. unqualified audit opinion on the legality and regularity (L/R) of expenditure.*
- 3. qualified audit opinion with significant impact on the functioning of the MCS.*

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.

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		
MA / JS	ERDF	<i>System audit of specific thematic area - performance data reliability</i>	July 2020	1	1	1	1	1	1	/	/						1	
CU CRO	ERDF	<i>Follow-up of System audit of the Control Unit in Croatia</i>	December 2020	1 ²⁵	/	/	1	1	1	/	/						1	
CA ²⁶	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	
MA ²⁷ / JS / NA	ERDF	<i>2nd System audit of the Managing Authority/Joint Secretariat / National Authority</i>	June 2021	1	1	1	/	2	1	2	2						2	
CU SLO ²⁸	ERDF	<i>Follow-up of the 2nd System audit of the Control Unit in Slovenia</i>	July 2023	1	/	/	2	2	/	/	/						2	

Note: The parts in grey in the table above refer to key requirements that are not applicable to audited entity

²⁵ Assessment of KR 1 was part of 2nd System audit; Assessment of KR 4, 5 and 6 were part of 1st System audit.

²⁶ Second system audit of CA in the programming period 2014-2020.

²⁷ Second system audit of MA in the programming period 2014-2020.

²⁸ Second system audit of CU SLO in the programming period 2014-2020.

ANNEX 2 - "RESULTS OF AUDITS OF OPERATIONS" – 9th 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	1.955.926,05	1.414.367,50	72,31	28,57	72,31	197.158,43	10,1%	197.158,43	0,0232%	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 2.3	SLO-HR489	1.358.281,56	HR	Hrvatske vode (LP)	506.698,37	278,50	External expertise and services including 10% flat rate for staff costs and 15% flat rate for admin. costs	Use of award criterion not related to the subject-matter of the procurement; 10% financial correction.	Ineligible expenditure	Random error	278,50
				SI	Direkcija Republike Slovenije za vode (PP2)	851.583,19	196.145,22	Infrastructure and works including 10% flat rate for staff costs and 15% flat rate for admin. costs	The contractor replaced the construction manager, who did not meet the qualifications specified by the auditee as a condition in public procurement procedure. The substantial modification of the contract element was therefore identified; 25% financial correction.	Ineligible expenditure	Random error	196.145,22

							692,42	External expertise and services including 10% flat rate for staff costs and 15% flat rate for admin. costs	Insufficient audit trail for the award of the contract; 25% financial correction.	Ineligible expenditure	Random error	692,42
FRISCO 2.3 - TOTAL											197.116,14	
2	TA 2 CA	SLO-HR198	56.085,94	SI	Slovenski regionalno razvojni sklad (LP)	56.085,94	6,51	Travel and accommodation	Double financing: travel expenses charged two times for the project.	Ineligible expenditure	Random error	6,51
							35,78	Staff costs including 15% flat rate admin. costs	Insufficient audit trail for the award of the contract; 25% financial correction.	Ineligible expenditure	Random error	35,78
TA 2 CA - TOTAL											42,29	
Total irregular expenditure (in €)											197.158,43	

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

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