



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE

BUDGET SUPERVISION OFFICE
OF THE REPUBLIC OF SLOVENIA

ANNUAL CONTROL REPORT

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

CCI No 2014TC16RFCB053

**referred to the 4th accounting year
from 1st July 2017 to 30 June 2018**

Final Version



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1. INTRODUCTION	3
2. SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEM(S)	4
3. CHANGES TO THE AUDIT STRATEGY	4
4. SYSTEM AUDITS	4
5. AUDITS OF OPERATIONS	10
6. AUDITS OF ACCOUNTS	13
7. COORDINATION BETWEEN AUDIT BODIES AND SUPERVISORY WORK BY THE AUDIT AUTHORITY..	15
8. OTHER INFORMATION	16
9. OVERALL LEVEL OF ASSURANCE	16
ANNEX 1 - "RESULTS OF SYSTEMS AUDITS"	18
ANNEX 2 - "RESULTS OF AUDITS OF OPERATIONS"	19
ANNEX 4(B) - "TABLE OF IRREGULARITIES"	19
ANNEX 3 - "CALCULATION OF RTER" (table in excell-attached).....	20
ANNEX 4(A) - "TYPES OF FINDINGS" (table in excell-attached).....	20

1. INTRODUCTION

- Indication 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)
Cohesion and Structural Funds Audit Sector
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:
Directorate General for Audit of European Funds (hereinafter DGAEF)
Bartók Béla út 105-113
1115 Budapest -Hungary

- Indication of the reference period.

The period from 1 July 2017 to 30 June 2018 represents the reference period in accordance with Art. 2(29) of Regulation (EU) No.1303/2013

- Indication of the audit period.

The Annual Control Report is referred to the audit work performed in the (audit) period from 1 July 2017 to the date of the submission of it to the EC.

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

COOPERATION PROGRAMME INTERREG V-A Slovenia - Hungary 2014 – 2020
CCI No 2014TC16RFCB053

Managing Authority (hereinafter MA):
Government Office for Development and European Cohesion Policy
ETC and Financial Mechanism 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
Škrabčev trg 9a
1310 Ribnica – Slovenia

- 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)

The designation of the Management Authority and Certifying Authority for the CP INTERREG V-A Slovenia Hungary 2014-2020 was, in accordance with the Art.124 of Regulation No. 1303/2013, carried out in April 2017.

In October 2018 the MA submitted to the AA the revision version of the DMCS, which include changes of the MCS referred to the period from March 2017 to October 2018.

Based on the desk analysis of the revised version of the DMCS, only minor changes with no substantial impact on the MCS have been carried out.

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

3. CHANGES TO THE AUDIT STRATEGY

The final version of the audit strategy has been adopted in March 2018. No changes have been made to the audit strategy for the CP in period from March 2018 till the period of the submission of this report to EC.

4. SYSTEM AUDITS

Indication of the bodies that have carried out systems audits, including the audit authority itself.

In the period from 1st July 2017 to 30 June 2018 the following system audits, in accordance with the audit strategy, have been performed by AA and AB (in Hungary):

- of the Control Unit in Hungary
- of the Control Unit in Slovenia
- of the Managing Authority
- of the Certifying Authority
- of specific thematic area-functioning and security of IT system.

Description of the basis for selection of the audits in the context of the audit strategy.

The system audits have been performed in the on the base of the adopted Audit Strategy for the CP.

Taking into consideration that relatively small number of the programme/bodies participate in the MCS and in addition 2 of them (MA and CU 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 (GODC) 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 minimum twice in the programming period.

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

It is planned that the rank list will be reviewed every year and - if necessary the new rank list of single bodies/authorities to be subject of the system audit on base of analysis of the eventual changes of the MCS and considering the results from system audits and audits of operations, which were implemented in the previous years, will be formed.

Additionally, for the same period the sequence order for the system audits of thematic issues has been created. It will be subject of revision on the annual level if on base of the conclusions gained from system audits and other available information which indicate specific problems in single thematic areas it will be requested.

According to the rank list it was defined that first two system audits (MA and CA) will be started in the first year of the implementation of the CP, after the designation of the CA and MA will be concluded (2017). In 2018 the system audits of CU in Slovenia and CU in Hungary and the system audit targeted to specific thematic area-functioning and security of IT systems were planned and executed.

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

System audit of the Certifying Authority

KR9: Adequate separation of functions and adequate system for reporting and monitoring where the responsible authority entrust execution of tasks to another authority

<p>Finding No.1:</p> <p>During the system audit of CA it was established that the composition of the Supervisory Board of the Slovenian Regional Development fund (CA) and its area of the functions doesn't assure total independence of CA.</p>	<p>Recommendation No.1:</p> <p>It was recommended that the Slovenian Regional Development fund, under which responsibility is also the CA, assure (through formal changes or changes in human resources in the Supervisory Board) the independent position of CA.</p>
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KR10: Adequate procedures for drawing-up and submitting payment applications

Finding No.3: It was established that in some audited cases in CA certificates no proper audit trail on formal and accounting control in Accountancy is assured.	Recommendation No.3: CA should assure proper audit trail at executing all CA confirmations, taking into consideration also »four eyes principle«.
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KR 11: Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained

Finding No.6: No electronic connection between e-MS and iCenter (accounting IT system of CA), with which direct transmission of data about payments from EC and the executed payments to the Lead Partners would be possible.	Recommendation No.6: CA and MA should prepare action plan which will in long-term period assure interconnection between two IT systems.
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KR12: Appropriate and complete account of amounts recoverable, recovered and withdrawn

Finding No.8: CA Guidelines don't include procedures for executing payback in case of irregular spending and in case of bankruptcy or compulsory settlement of the Lead/Project partners.	Recommendation No.8: CA should include in its Guidelines procedures for executing payback in case of irregular spending and in case of bankrupt or compulsory settlement of the Lead/Project partners.
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KR 13: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts

Finding No.10: IT system e-MS for the preparation of accounts doesn't assure exact and proper data about public part of founding, payed to the beneficiaries.	Recommendation No.10: CA and MA should assure in IT system e-MS exact and proper data about public part of founding, payed to the beneficiaries.
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System audit of the Managing Authority

KR 2: Appropriate selection of operations

Finding No.1: In the check lists for administrative compliance and eligibility check as well quality assessment of applications (in e-MS), the date of single assessment is not evident in transparent manner.	Recommendation No.1: MA should assure in IT system e-MS transparent audit trail in the way that in the check lists for administrative and quality assessment of the application the date of single assessment is registered.
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KR 5: Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail

Finding No.3: In the check list of the contract's manager (JS) the number of project report is not determined, and the date of his/her review is not seen.	Recommendation No.3: MA should assure transparent audit trail in the check- list of the contract's manager (the number of project report and the date of his/her review).
Finding No.5: In the CA check-list the number of project report is not determined, and the date of confirmation is not evident.	Recommendation No.5: MA should assure transparent audit trail in the CA check-list (the number of project report and the date of confirmation).

KR 7: Effective implementation of proportionate anti-fraud measures

Finding No.6: MA in its self-assessment of fraud risk didn't proper assess total gross and residual risk of fraud. From MA self-assessment is not seen, who is responsible for the preparation and for which organisation unit is prepared (only partly fulfilment of the Guidance of EC for assessment of fraud risk).	Recommendation No.6: MA should - in accordance with Guidance of EC - fulfil again the self-assessment of fraud risk with the proper expert group and the proper method of risk assessment (gross risk and residual risk after additional controls/measures implemented).
Finding No.9: In the frame of the programme the IT tool ARACHNE is used only in the phase of quality assessment, and not also in the frame of first level controls.	Recommendation No.9: MA and CU should assure the application of ARACHNE also in the frame of implementation of first level controls.
Finding No.10: It was established during the system audit that employees have no enough trainings on anti-fraud measures.	Recommendation No.10: MA should plan and realize more trainings of the employees on anti-fraud measures.

System audit of the Control Unit in Slovenia

KR1: Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body

Finding No.2: Partner progress reports and their expenditure for the Technical Assistance/Beneficiary NA/CU are being controlled by the controller of the CU.	Recommendation No.2: CU should together with the MA put in place adequate procedures and arrangements to assure separation of duties of management verifications and Beneficiary.
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KR4: Adequate management verifications

Finding No.4: 1. On the „FLC certificates“ there is no evidence who did the supervision of the controller. 2. In the „FLC certificates“ and „FLC reports“ not all data entry fields are filled in.	Recommendation No.4: 1. CU should respect the four-eye principle when performed the controls. 2. Controllers should in the „FLC certificates“ and „FLC reports“ fill all data entry fields.
Finding No.5: Methodology for sampling operations for on-the-spot verifications is prepared and used, but the sampling not apply all the requirements of Art. 125(5) of Regulation EU No.1303/2013.	Recommendation No.5: CU should align its methodology with all the requirements of Art. 125(5).

System audit of the Control Unit in Hungary

KR4: Adequate management verifications

Finding No.3: Based on the verified checklist templates and the on-the-spot FLC reports, it can be concluded that <ul style="list-style-type: none">• controllers do not control at all during the administrative check whether the purchase price meets the market price, whether there is any overpricing• During on-the-spot audits, compliance with the market price is checked, but the report does not contain any information about the method. In the absence of verification of compliance with the market price, the risk of financial conflict of interest arises.	Recommendation No.3: DGAEF recommends to the MA that the FLC checklist to be supplemented by a question of checking compliance with market prices. Additionally, complete the checklist with Explanatory notes based on which the comments column regarding the performed verification can be filled in and establish an adequate market price verification methodology.
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<p>Finding No.4:</p> <p>The audit revealed deficiencies related to filling in checklists and reports:</p> <ul style="list-style-type: none"> • it is not clear that the "Not applicable" answer means that the document in question does not exist or that it should not exist (i.e. the question is "Not relevant") • in many cases the conclusion is missing from the end of the checklists and the reports. <p>Based on the incompletely filled checklists the result of the FLC is not transparent, not traceable.</p>	<p>Recommendation No.4:</p> <p>The CU should ensure to supplement the checklists and reports and to provide Explanatory notes. Call the controllers' attention to the necessity of more detailed filling of the comment column and to formulate the conclusion.</p>
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KR 5: Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail

<p>Finding No.5:</p> <p>It was established that in some audited cases the e-MS doesn't contain any information about the subsidy contracts amendments.</p> <p>In the absence of uploading the documents, the audit trail is incomplete, and the project lifetime could not be traced.</p>	<p>Recommendation No.5:</p> <p>It is recommended to CU (and MA) to upload the modifications of the subsidy contract to e-MS in time.</p>
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System audit of specific thematic area-functioning and security of IT system

In the frame of the IT system audit of e-MS the following audit objective have been checked:

- Availability and reliability of data for all CP, which is needed for financial management, follow-up, control and evaluation in e-MS,
- Efficiency of application software e-MS for users, mostly the efficiency of the controls, which assure correctness and completeness of data and the efficiency of user's servers in the process of searching and archiving of data, which is needed for financial management, follow-up, control and evaluation in e-MS,
- Efficiency of data servers in the process of automatic or hand-made data exchange between the information systems and
- Appropriate data protection concerning the control objectives, determined in standards ISO 27001 and ISO 27002.

During this audit minor findings have been detected, prevalently of technical nature, which, in accordance with action plan prepared by the MA, will be solved by the end of June 2019. The only improvements are referred to the "appropriate data protection concerning the control

objectives, determined in standards ISO 27001 and ISO 27002”, where the strongly compliance with this standard is recommended.

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.

No errors of systemic nature were detected during the previously defined system audit.

Overall conclusion by the MCS:

BSO as the AA for the CP, on the basis of the results and conclusions of the system audits of MA, CA and CU in Slovenia (all assessed with Category 2) and of system audits of CU in Hungary (assessed with Category 2) assessed the overall MCS for the CP in Category 2 (“System works, but some improvements are needed”).

5. AUDITS OF OPERATIONS

Indication of the bodies that carried out the audits of operations

For the reference period the audit of operations for the CP were carried out by the BSO (in Slovenia) and by the DGAEF (AB in Hungary). Each body prepared the partial reports on performed audits of operations for the beneficiaries (project partners) on its own territory.

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

The method, used by the AA to select a sample of operations for the reference period (4th accounting year) was defined analysing the characteristics of the population: number of operations (with certified amounts), number of Lead Partner’s and Partner’s applications for reimbursement, size (in terms of certified amount per year) and type of operations.

In the 4th accounting year the CA declared, in the frame of CP, to the Commission the expenditure in the total amount of 1.002.330,58 €. The AA reconciled the value of the population sampled with this amount. No differences between the above amounts have been identified.

The population sampled includes 19 partner Progress Report (Lead Partner level) which corresponds to 8 operations with expenditures certified in the accounting year.

Analysing the population, one “high value” operation was identified.

Analysing the remaining part of the population (excluding the “high-value” operation) the AA decided to use, in accordance with the Audit Strategy a non-statistical sampling and select the sample by means of random selection method.

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

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

Assurance level from the system audit	Recommended coverage	
	<i>on operations</i>	<i>on expenditure declared</i>
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 4th accounting year the assurance level from system audits was estimated, on the basis of the results of the performed system audits of MA, CA and CU (2) in Slovenia and in Hungary, carried out by the BSO and DGAEF, in Category 2 “System works, but some improvements are needed”.

The Category 2, according to the Methodology included in the Audit Strategy, corresponds to average level of assurance gained from the system, which in terms of the % of population represents (max) 10% of operations and in terms of expenditure declared 10% of amount of expenditure declared in the 4th accounting year¹.

As previously said the sample was selected in two steps, as follows:

- in first step the “high value” operation was defined; SIHU18 Green Exercise with the total amount of certified expenditure corresponding to 482.802,22 €;
- in second step 1 (0,7) operation out of the remaining 7 operations in the population were selected randomly.

The selected operations are briefly described in the following table:

	Operation	Priority Axes	Certified amount in €	Audited amount in €
1.	SIHU18 Green Exercise	I	482.802,22	482.802,22
2.	SIHU85 Technical Assistance 1 MA/JS	IV	203.556,34	203.556,34
	Total		686.358,56	686.358,56

The size of the selected sample corresponds to 68,5% of total certified expenditure in 4th accounting year and 25% of the total number of operations.

No negative sampling units have been identified in the frame of the population treated.

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

Indication of the materiality level and, in the case of statistical sampling, the confidence level applied and the interval, if applicable.

The materiality threshold is determined at 2% from the certified eligible expenditure for the 4th accounting period, which amounts to 20.046,61 €.

In the projection of sampling error, the AA applied the “ratio estimation”. The total projected error (TER) (calculated with this method) presents 0,053% of the amount of the certified eligible expenditure for the 4th accounting period, which corresponds to the amount of 534,90 €. Therefore, the materiality threshold is not exceeded.

Analysis of the principal results of the audits of operations

During the audits of operations 2 irregularities in the total amount of 209,58 € were detected. The following table presents the basic data in relation to the amount 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 DGAEF (Hungary)	The error rate / audited amount per operation (in %)
1. SIHU18 Green Exercise	482.802,22	0,00	n/a	n/a	0%
2. SIHU85 Technical Assistance 1 MA/JS	203.556,34	209,58	209,58	0,00	0,10%
	686.358,56	209,58	209,58	0,00	

The AA analysed the irregularities detected during the audits of operations and concluded that all of them are categorized as random errors.

The total projected error (calculated with “ratio estimation” method) represents 0,05% of the amount of the certified expenditure in the population for the 4th accounting year, which corresponds to the amount of 534,90 €.

The description of the irregularities detected together with the information on the single operations, project partners, ineligible amounts and type of error are included in the Annex 4 (B) of this report.

The financial corrections (in absolute value) related to the irregularities detected during the audits of operations performed in 2018 have been deducted by CA before submitting the accounts to the Commission.

As the corrective measures (explained also in the next chapter) have been taken before the finalization of the ACR the RTER has been calculated. It corresponds to 0,032% and it is below the materiality level.

On the basis of 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

The audit of accounts for the 4th accounting period have been performed by the Audit Authority for CP.

All the procedures have been implemented 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 till 30 November
- submission of second draft of Annual accounts for the previous accounting year till 7 January
- submission of Annual Summary and Management Declaration till 23 January.

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:

- the system audits of the CA and the MA for the CP, which have been performed by the AA in the period December 2017-March 2018;
- audits of operation with the expenditure certified in 4th accounting year in the period May-September 2018;
- additional final verifications of audits of accounts in January 2019.

In relation to the 4th accounting period 3 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 the 3 interim payment applications submitted by the CA to the EC in the 4th accounting period. The total amount of eligible expenditure declared in the final interim payment application corresponds to the cumulative amount of eligible expenditure declared in the 3 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 the Chapter 5 2 audits of operations were performed, which included 27 Partner Progress Reports.

During the final additional verifications 4 items of expenditure (CA confirmations) have been randomly selected from 3 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 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 4th accounting year.

In accordance with Art.29(4) of the Regulation 480/2014 the part of verifications of audit of accounts of the 4th accounting year per CP were implemented during the system audit of the Certifying Authority in Slovenia. The audit was performed in the period from December 2017 to March 2018 upon the finalization of the designation process. In the frame of this audits also the Key requirement 11: Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained and Key requirement 13: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts, relevant for the audit of accounts were checked.

On base of available date in the period of implementation of this audit (1 interim payment application has been submitted to the EC) the AA was in limited way able to check the consistency of CA work with the written procedures defined by CA for the relevant KR. Only minor inconsistency of the system have been identified during this checks; the findings and recommendations are included in Chapter 4 of the present report.

In the 4th quarter of the 2018 the AA started the follow-up of the system audit of CA, where the consistency and reliability of data included in the 4th Annual Accounts have been verified.

In this frame the accuracy of the amounts of expenditure included in the Annual Accounts, on sample basis, have been checked²; no inconsistency have been revealed.

Only one negative amount has been reported in the accounting system and its correctness has been verified.

The correction reported in the accounts reflected correctly the amount of irregularity detected by the AA during the audit of operation of TA1 MA/JS (209,58€).

The AA considers adequate the CA explanations regarding this adjustment, contained in the column G of the Annex 8.

In the *Table 1* the reconciliation between the amounts declared in the Final Interim Payment Application and amounts included in the Annual Accounts (final version). In correspondence to the draft versions of the Annual Accounts no additional informations have been reported in its final version.

Table 1:

4 th accounting period	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 eligible expenditure (in €)	Total amount of the corresponding public expenditure (in €)
	1.002.330,58	985.212,61	1.002.121,00	985.003,03	209,58	209,58

² The reconciliation btw the total amount of eligible expenditure entered into the accounting system and expenditure include in interim payment applications submitted to the EC have been checked.

In January 2019 the MA submitted the final version of the Managing 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 CU, including administrative verifications with the description of the main results and type of errors detected by the CU as well the on the spot checks performed by the Slovenian and Hungarian CU.

The AA compared the reported data in the annual summary with the annual accounts and the analytical evidences available in the e-MS. No inconsistency have been identified during this verifications.

The AA analysed also the Managing Declaration. For this purpose the AA compared the statements declared by the MA with the results of the system audits, the audits of operation and audit of accounts as well with information on the results of first level controls included in the Annual Summary of Controls 2018.

On base of these the AA can be conclude that the audit work performed is not reducing the assurance of the statements declared by the MA in the Managing Declaration.

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

In May 2018 the BSO as the AA together with DGAEF as the AB organized the meeting of GoA where the members of GoA were informed about common methodology for audits of operation and about the sample for audit of operation in the year 2018. The DGAEF agreed with the sample of operations for the 4th accounting year³. Based on the results of the single audits the BSO as the AA for the CP prepared this annual control report, approved by GoA by written procedure.

All the audits were performed by the AA and AB on base of the common methodology for system audits and audits of operation approved by GoA for the CP and part of the Audit Strategy, except for the audit on the thematic IT issues which was performed by the external auditor⁴. This audit has been performed under the quality supervision of the AA.

³ 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.

⁴ For the selection of the external auditor (with specific competences in the IT area) the selection procedure for the external audit contractor, which was executed through the procedures of public tender, was applied.

8. OTHER INFORMATION

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

In the time of the finalization of this report the AA received the official letter from the MA regarding the nomination of the new Head of MA for the CP. New Head of the Managing Authority of the CP Interreg V-A Slovenia-Croatia is from 17.1.2019 Mr. Dimitrij Pur, replacing Ms Nina Seljak.

EC in the letter of October 2018 (Subject: Reliability of data on performance indicators) requested to the AA to specify the audit work carried out so far and the results in relation to the performance data reliability from system audits (KR6), eventual specific thematic audits on performance data reliability and audits of operation.

Concerning this aspect, the AA performed the system audit of the MA for the CP, where in the frame of the Key Requirement 6: Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange system with beneficiaries also the consistency of data on performance indicators, were tested. On base of the results of testing data⁵ and analysis of part of the IT system relevant for this aspect the AA is able to confirm the basic assurance on performance data reliability in the frame of the audited CP.

Anyway, the AA, in accordance with the Audit Strategy, is planning to perform the specific thematic audit on performance data reliability in the first half of this year. In addition, the more detailed integration of the check lists for audits of operation will be prepared in relation to this aspect.

In December 2018 the AA started the follow up of the system audits of CA and MA and CU in Slovenia.

In the time of preparation of this report the audits are not finalized yet. Therefore, the results obtained from follow up audits will be included in the 5th Annual Control Report.

9. OVERALL LEVEL OF ASSURANCE

In the preparation of the audit opinion for the 4th accounting year the AA take in consideration the results of the performed system audits of the MA, CA and 2 CU in Slovenia and in Hungary, the results of the audits of operation as well the additional final audits of accounts performed by the AA in December 2018 - January 2019.

On base of the results obtained from the system audits of the MA, CA and CU in both countries the AA assessed the overall MCS for the CP in Category 2 ("System works, but some improvements are needed").

During the audits of operation only minor irregularities have been identified; upon this results the TER calculated corresponds to the 0,053%.

⁵ 2 operations in the very early phase of implementation.

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

On base of this partial conclusions on audit work performed in 2018 by AA in cooperation with the AB the AA can provide 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 expressed the unqualified opinion.

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 2014TC16RFCB053, CP INTERREG V-A Slovenia Hungary 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	ERDF	<i>System audit of the MCS of the Managing Authority</i>	February 2018	1	2	1	/ ⁶	2	2	2	2							2	
CU SLO	ERDF	<i>System audit of the MCS of the Control Unit in Slovenia</i>	April 2018	2	/ ⁷	/	2	2	1	/	/							2	
CU HU	ERDF	<i>System audit of the MCS of the Control Unit in Hungary</i>	November 2018	1	/ ⁸	/	2	2	1	/	/							2	
CA	ERDF	<i>System audit of the MCS of the Certifying Authority</i>	February 2018										2	3	2	2	2	2	

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

6 KR 4 was not part of MA system audit (CU system audit separately).

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

8 KR 2, 3, 7 and 8 were not part of CU HU system audit.

ANNEX 2 - "RESULTS OF AUDITS OF OPERATIONS"

Fund	Programme CCI number	Programme title	A	B		C		D	E	F	G	H	I
			Amount in Euros 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 irregular expenditure in random sample	Total error rate (TER)	Corrections implemented as a result of the total error rate	Residual total error rate (RTER) (F = (E * A) - F)	Other expenditure audited	Amount of irregular expenditure in other expenditure audited
Amount	%	% of oper. covered	% of expend. covered										
ERDF	2014TC16 RFCB053	INTERREG V-A SI HU	1.002.330,58	686.358,56	68,48	68,5	25	209,58	0,053%	209,58	0,032%	0,00	0,00

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	TA1 MA/JS	SIHU85	203.556,34	SI	Služba Vlade Republike Slovenije za razvoj in evropsko kohezijsko politiko (LP)	203.556,34	22,00	Travel and accomodation	Overpaid travel costs	Ineligible expenditure	Random error	22,00
							187,58	External services	Costs sre not related to the project	Ineligible expenditure	Random error	187,58
TA1 MA/JS - TOTAL												209,58
Total irregular expenditure (in €)											209,58	

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

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