



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE
BUDGET SUPERVISION OFFICE



3RD ANNUAL AUDIT REPORT

**FOR IMPLEMENTATION OF
NORWEGIAN FINANCIAL MECHANISM AND
EUROPEAN ECONOMIC AREA FINANCIAL MECHANISM
FOR THE PERIOD 2014 - 2021**

January 2021

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1. INTRODUCTION

1.1 Reference period – accounting year

In the reference period from 1st January to 31 December 2020 (accounting year 2020) the declared expenditure for managing programmes “Education, Scholarships, Apprenticeship and Youth Entrepreneurship” and “Climate Change Mitigation and Adaptation”, and expenditure for “Technical assistance” and “Bilateral Fund” activities were submitted to the donors by several Intermediate Financial Reports (hereinafter: **IFR**).

1.2 Reference to the version of the audit strategy applicable

The audit strategy is still in version 1 (September 2019), the version 2 of the audit strategy for the next reference periods (accounting years) is still in preparation.

1.3 Audit period (during which the audit work took place)

The Annual Audit Report describes the audit work done in the year 2020.

1.4 Identification of the programme(s) covered by the report and of its/their PO(s)

The report covers the following programs and programme operators (hereinafter: **PO**)¹:

- EDUCATION, Scholarships, Apprenticeship and Youth Entrepreneurship, PO: Financial Mechanisms Division within the European Territorial Cooperation and Financial Mechanisms Office, within Government Office for Development and European Cohesion Policy (hereinafter: **FMD**);
- CLIMATE Change Mitigation and Adaptation, PO: FMD;

The report covers also the following **other allocations**²:

- Technical assistance to the Beneficiary State and
- Fund for Bilateral relations.

1.5 Description of the steps taken to prepare the report and to draw the audit opinion

In the line with article 101 of the Slovene Public Finance Act and the Annex A of Memorandum of Understanding on the implementation of the Norwegian financial mechanism and European Economic Area Financial Mechanism (hereinafter: **N fm and EEA fm**) for the period 2014 - 2021, the Budget Supervision Office of Republic Slovenia (independent entity of the Ministry of Finance) is the main and only Audit Authority and consequently responsible for the preparation of this Annual Audit Report.

Annual Audit report and opinion is prepared on the base of the Financial Guidance on how to carry out financial tasks under the EEA and Norwegian Financial Mechanisms for 2014-2021³.

¹ *the Financial Mechanisms Committee and National Financial Point signed by on 18 December 2019 the Programme Agreements for “Climate change mitigation and adaptation” and for “Education, Scholarships, Apprenticeship and Youth Entrepreneurships”.*

² in the line with Annexes B of Memorandums of Understanding on the implementation of the N fm and EEA fm for the period 2014 – 2021, signed with the donor states on 17 April 2018.

³ Financial Mechanism Office Guidance Version 1 – Updated September 2018

In the year 2020 the AA has performed the compliance audit of both POs and the audit of their statements of actual expenditure incurred (IFR) presented to the donors by 15 March 2020 and by 15 September 2020; the AA has also performed the audit of National Focal Point's statements of actual expenditure incurred (IFR) for "Technical assistance" and "Bilateral Fund" activities presented to the donors by 15 March 2020. As the system audit in the year 2020 – due to delays in PO's implementation – haven't been implemented, the AA can't express an opinion as to whether the management and control system is functioning in compliance with Regulations. The AA can provide a reasonable assurance that statements of actual expenditure incurred (IFRs) presented to the donors⁴ are correct and as consequence reasonable assurance that the underlying transactions are legal and regular.

2. SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

In the line with Annexes A of Memorandum of Understanding on the implementation of the N fm and EEA fm for the period 2014 – 2021⁵ and the Description of the management and control system of the national entities of the N fm and EEA fm for the period 2014–2021, both financial mechanisms are sharing the same management and control system:

- a) National Focal Point (hereinafter: **NFP**): Government Office for Development and European Cohesion Policy, FMD as NFP
- b) Certifying Authority (hereinafter: **CA**) and Irregularities Authority: Department for management of EU funds, within the Budget Directorate of the Ministry of Finance
- c) Audit Authority (hereinafter: **AA**): Budget Supervision Office, independent entity of the Ministry of Finance

Both POs sent to AA on 31 August 2020 Description of the management and control system (hereinafter: **DMCS**) of the Programme Operator of the N fm and EEA fm for the period 2014–2021. The AA conducted compliance assessment and in September 2020 issued the "Report on the compliance assessment of the management and control system of the Programme Operators for the Norwegian and the European Economic Area financial mechanisms for the period 2014–2021". The AA issued 3 findings and recommendations to the POs:

- national regulation on implementation of financial mechanisms in Slovenia not adopted yet,
- possibility of 100% administrative verifications besides administrative verifications on the sample basis, and
- preventing double role of PO's employees.

All identified deficiencies, which are in more detail stated in point 2.1, 2.2 and 2.3. of the report, refer to auxiliary components of the system and are currently improving (national regulation was adopted on 5 November 2020 by the Slovenian Government).

The AA issued opinion, that the described management and control system of the POs for the N fm and EEA fm for the period 2014-2021 in Slovenia:

- complies with the requirements of Articles 5.1, 5.6 and 5.7 of the Regulations on the implementation of the N fm and EEA fm,
- is adequate and proportionate to effectively achieve the objectives of the programs and
- complies with generally accepted accounting principles.

⁴ the Norwegian Ministry of Foreign Affairs and the Financial Mechanisms Committee

⁵ Annexes A were changed by the »Exchange of letters (June 2019)

In the year 2020 the changes in management and control systems, i.e. the supplements in the **leadership of NFP and of both POs** were executed. The new Head of NFP was authorized in spring and the new Head of both POs was authorized in autumn. The AA doesn't expect new risks at implementing tasks of both entities, as both supplements are experienced experts.

3. CHANGES TO THE AUDIT STRATEGY

Audit strategy for this reference period is still in version 1; in version 2 for the next reference period the changes to the sampling methodology are applied.

4. SYSTEMS AUDITS

Considering the state of play of the implementation of the systems in the reporting period, the **AA haven't performed system audits** due to late preparation phase of the management and control systems (delay in the DMCS of the POs and due to delay in issuing public calls for both programmes).

5. AUDITS OF PROJECTS

In the reporting period the AA performed audits of declared expenditure for managing both programmes, and for "Technical assistance" and "Bilateral Fund" activities. The POs, NFP and CA issued following IFRs to the donors:

PROGRAMME (Project No)	IFR No	Declared (in €)	Audited (in €)	Coverage (in %)	Ineligible expenditure (in €)	Error rate (in %)	Financial correction (in €)	Residual error rate (in %)
EDUCATION (ATP 9)	1	120.217	120.217	100%	2.963	2,46%	2.963	0%
EDUCATION (ATP 9)	2	38.868	38.868	100%	0	0%	0	0%
EDUCATION		159.085	159.085	100%	2.963	1,86%	2.963	0%
CLIMATE (ATP 11)	1	115.758	115.758	100%	1.395	1,21%	1.395	0%
CLIMATE (ATP 11)	2	38.558	38.558	100%	0	0%	0	0%
CLIMATE Change		154.316	154.316	100%	1.395	0,90%	1.395	0%
TA (ATP 4)	2	57.849	18.810	32,52%	0	0%	0	0%
TA (ATP 4)	3	27.534	0	0%	0	0%	0	0%
Technical Assistance		85.383	18.810	22,03%	0	0%	0	0%
BF (ATP 1)	2	1.625	1.625	100%	0	0%	0	0%
BF (ATP 1)	3	0	0	0%	0	0%	0	0%
Bilateral Fund		1.625	1.625	100%	0	0%	0	0%
TOTAL 2020		400.409	333.836	83,37%	4.358	1,31%	4.358	0%

The declared expenditure for managing programme “EDUCATION, Scholarships, Apprenticeship and Youth Entrepreneurship” is in the amount of 159.085 €. The AA audited both IFRs (100 % audit coverage) and found ineligible expenditure (due to double financing) in the amount of 2.963 €, which means error rate **1,86 %**.

The declared expenditure for managing programme “CLIMATE Change Mitigation and Adaptation” is in the amount of 154.316 €. The AA audited both IFRs (100 % audit coverage) and found ineligible expenditure (due to double financing) in the amount of 1.395 €, which means error rate **0,90 %**.

The declared expenditure for other allocations were in the amount of 85.383 € for “Technical assistance” (2 certified reports of the NFP, AA, Certifying Authority and Irregularities Authority) and in the amount of 1.625 € for “Bilateral Fund” (2 certified reports of the NFP). The AA reported on the audit of the selected both certified reports of the NFP in the amount of 18.810 € for “Technical assistance” (22 % audit coverage) and in the amount of 1.625 € for “Bilateral Fund” (100 % audit coverage) and didn't find any ineligible expenditure.

The total audited amount is **333.836 €** from the population in the amount of 400.409 €, so the sample size is over 83 %. In the sample the AA found irregular (ineligible) expenditure in the amount of **4.358 €**. The total **error rate is 1,31 %** and is under the materiality threshold of 2 %.

Both POs and the CA made **financial corrections** in the amount of 4.358 €, reported in IFRs No 2, on 15 September 2020. After these financial corrections the total **residual error rate is 0 %**.

6. CO-ORDINATION BETWEEN AB AND SUPERVISORY WORK OF THE AA

In the reporting period outsourced audits were not performed and there was no coordination between audit bodies and the AA.

7. OTHER INFORMATION

In the year 2020 there was no suspicion of fraud detected and reported.

8. OVERALL LEVEL OF ASSURANCE

As in the reporting period the AA hasn't performed system audits, assurance on the proper functioning of the management and control system can't be given. The expenditure from programmes were declared only for managing the programmes, “Technical assistance” and “Bilateral Fund” activities. The results of audits of expenditures gives assurance on the legality and regularity of the expenditure declared to the donors.

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REPUBLIC OF SLOVENIA
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BUDGET SUPERVISION OFFICE
OF THE REPUBLIC OF SLOVENIA

**For the: Financial Mechanisms Committee (FMC), Financial Mechanism Office (FMO)
and Norwegian Ministry of Foreign Affairs (NMFA)**

INTRODUCTION

The undersigned Dušan Sterle, representing the Budget Supervision Office, as the authority responsible for auditing the functioning of the management and control system established for the Norwegian and the EEA Financial Mechanism for the period 2014 - 2021, and for the issuing an opinion to the FMC/NMFA/FMO as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC/NMFA/FMO are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.

LIMITATION OF THE SCOPE

The scope of the examination was limited by the following factors:

- in the period from 1 January to 31 December 2020 no system audits were performed,
- in the reference period only statements of expenditure were submitted to donors (Intermediate Financial Reports of the Programme Operators for managing the "Climate Change Mitigation and Adaptation" and "Education, Scholarships, Apprenticeship and Youth Entrepreneurship" programmes and Intermediate Financial Reports of the National Focal Point for "Technical Assistance" and "Bilateral Fund" activities).

DISCLAIMER OF OPINION

Because of the significance of the matter described in the Limitation of the scope, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion whether the management and control system functions effectively, but I can provide a reasonable assurance that statements of actual expenditure incurred presented to the FMO are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.

Date: 15 January 2021



Dušan Sterle, Director

