



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE
BUDGET SUPERVISION OFFICE



6TH ANNUAL AUDIT REPORT

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

FEBRUARY 2024

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1. INTRODUCTION

1.1 Identification of the responsible audit authority

In 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 & EEA FM**) for the period 2014 - 2021, the Budget Supervision Office of Republic Slovenia (an independent entity within the Ministry of Finance) is the main and only Audit Authority (hereinafter: **AA**) and consequently responsible for the preparation of this Annual Audit Report.

Audit Authority (AA):

Ministry of Finance - Budget Supervision Office (BSO)
European Shared Management Funds Audit Division
Fajfarjeva 33
1000 Ljubljana – Slovenia

1.2 Reference period – accounting year

The reference period covers the expenditure incurred in the period from 1 July 2022 to 30 June 2023.

1.3 Reference to the version of the audit strategy applicable

The version 4.0 of the audit strategy was updated in March 2023.

1.4 Audit period

The Annual Audit Report refers to the audit work conducted during the audit period from 1 January 2023 to the date of report submission to the FMO.

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

The report covers the following programme(s)¹ and allocations:

- EDUCATION, Scholarships, Apprenticeship and Youth Entrepreneurship;
- CLIMATE Change Mitigation and Adaptation;
- Technical assistance to the Beneficiary State and
- Fund for Bilateral relations.

In accordance with Annex A of the Memorandum of Understanding on the implementation of the Norwegian Financial Mechanism and European Economic Area Financial Mechanism (N & EEA FM) for the period 2014 – 2021² and the Description of the Management and Control System (DMCS) of the national entities of the N & EEA FM for the period 2014–2021³, both financial mechanisms share the same Management and Control System (MCS):

¹ Financial Mechanisms Committee and National Financial Point signed on 18 December 2019 the Programme Agreements for "Climate change mitigation and adaptation" (amended in March 2021, August 2022 and December 2022) and for "Education, Scholarships, Apprenticeship and Youth Entrepreneurship" (amended in March 2021, September 2021 and December 2022).

² Annexes A were changed by the »Exchange of letters (June 2019)

³ DCMS Version 1 (July 2019), Version 2 (December 2021), Version 3 (December 2022), Version 4 (July 2023)

National Focal Point (NFP) / Programme Operator for both programmes (PO):
Ministry of Cohesion and Regional Development
Cohesion Directorate
Interreg and Financial Mechanisms Office
Financial Mechanisms Division

Certifying Authority (CA)/ Irregularities Authority (IA):

Ministry of Finance
Budget Directorate
Division for EU/CA Fund Management

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

The Annual Audit Report and opinion is prepared based on the Financial Guidance on how to carry out financial management and reporting under the EEA and Norwegian Financial Mechanisms for 2014-2021 (Financial Guidance, Version 2 –June 2022).

For the preparation of this report, the AA conducted the following activities during the period outlined in section 1.4 of the report:

- Audits of projects, as described in chapter 5 of the report,
- Desk review of changes to the MCS as described in chapter 2 of the report,
- Review of the implementation of recommendations from audits of projects.

2. SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

In March 2023 Mrs. Patricija Pergar has been appointed as the Head of the Audit Authority.

In June 2023 Mrs. Jadranka Plut has been appointed as the new Head of the National Focal Point (NFP) and Programme Operator (PO).

In July 2023, the National Focal Point (NFP) submitted a revised Version 4 of the Description of the Management and Control System (DMCS) to the Audit Authority (AA). This revision incorporates organizational changes to both the NFP and the PO.

In accordance with the enactment of the Law amending the Law on the Government of the Republic of Slovenia (Official Gazette 163/2022 dated 27 December 2022), the scope of work of the Government Office for Development and European Cohesion Policy of the Republic of Slovenia has transferred to the competence of the Ministry of Cohesion and Regional Development. The Ministry carries out tasks related to the field of regional development, European cohesion policy, development planning, as well as the management tasks for the needs of European structural funds and the cohesion fund, and management tasks for other financial mechanisms.

Among other responsibilities, the Ministry has taken over tasks related to the implementation of the Financial Mechanism of the European Economic Area (EEA) and the Norwegian Financial Mechanism in the Republic of Slovenia. This includes the tasks of the National Contact Point and the Programme Operator for the Education-Human Resources Strengthening program and the Climate Change Mitigation and Adaptation program.

Due to minor organizational and personnel changes within the ministry, it was necessary to update both the DMCS for the NFP, as well as the DMCS for the Education-Human Resources

Strengthening program and the DMCS for the Climate Change Mitigation and Adaptation program.

The key change compared to the previous arrangement is that the head of NFP is simultaneously the head of the PO for both programmes. According to the opinion of the Financial Mechanism Office (FMO), conveyed to the NFP on 6 June 2023, this is in line with Article 5.2.4 of both Regulations regarding the implementation of the Norwegian Financial Mechanism and the EEA Financial Mechanism.

The AA has examined the updated version 4 of the DMNC and based on the desk analysis, considers that the MCS in place is compliant with the EEA and Norwegian Financial Mechanisms regulations and the changes do not have a substantial impact on the functioning of the MCS.

3. CHANGES TO THE AUDIT STRATEGY

The audit strategy was updated in March 2023. In the updated version 4 of the audit strategy the sampling methodology was described in more detail and the thresholds for the audit coverage were aligned with the Sampling Guidance.

No other significant changes have been made to the audit strategy.

4. SYSTEMS AUDITS

No system audits were carried out in the 2023 audit period. The AA has initially planned follow-up system audits at the NFP, PO, CA and IA in the Audit strategy and the annual audit plan for 2023. However, since there were no open recommendations, there was no basis to conduct these audits.

The changes to the MCS were assessed based on the desk analysis and the AA concluded that the changes do not have a substantial impact on the functioning of the MCS.

Based on the system audits carried out in the previous audit period, the AA's assessment of the system at NFP, POs and NCU is in Category 2 and the AA's assessment of the system at CA and IA is in Category 1.

The overall assessment of the MCS is in *Category 2 (System works, but some improvements are needed)*.

5. AUDITS OF PROJECTS

All audits of projects for the reference period from 1 July 2022 to 30 June 2023 were carried out by the responsible AA stated in chapter 1.1 of this report.

The AA used a non-statistical sampling method to select the sample of projects in accordance with the Audit Strategy and considering the »Sampling Guidance on how to carry out sampling strategies under the EEA and Norwegian Financial Mechanisms for 2014-2021«.

The population to be sampled included the actual incurred expenditure declared in the reference period from 1 July 2022 to 30 June 2023 for the following programmes and allocations (subpopulations):

- Education, Scholarships, Apprenticeship and Youth Entrepreneurship;
- Climate Change Mitigation and Adaptation;

- Technical Assistance;
- Fund for bilateral relations.

The expenditure was declared to the donors by 8 Intermediate Financial Reports (IFR) in the total value of € 8.114.229,69. The AA analysed the IFRs and concluded that € 5.018.026,59 were advance payments to projects and the remaining € 3.096.203,10 were actual incurred expenditures by projects that represent the sampling population. The sampling population consisted of 24 projects with actual incurred expenditure, which was divided in 4 subpopulations.

Considering the size of the population, the 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.

The size of the sample was determined based on professional judgment, taking into account the level of assurance provided by the system audits. Given the assurance from the system audits (MCS assessed in Category 2), it was required, in accordance with the audit strategy, to audit at least:

- 12,5 % of projects and
- 17,5 % of expenditure.

Sampling units used for the projects expenditure and programme management costs under Education and Climate programme were project claims. Sampling units for the Fund for Bilateral Relations were payment claims by project partners. For technical assistance the sampling unit were payment claims selected from the beneficiary entities (Focal Point, Certifying Authority and Audit Authority). The AA ensured the representation of all programmes and of 4 different types of costs in the sample:

- projects expenditure
- programme management costs,
- funds for bilateral relations,
- technical assistance to the Beneficiary State.

Following the recommended coverage of expenditures and projects, a sample of 7 projects in the value of € 971.793,42 was randomly selected from the population of 24 projects with a total value of € 3.096.203,10.

The sample coverage represents 31,39% of expenditures and 29,17% of projects in the population.

Table 1: Actual incurred expenditure per Programme

PROGRAMME	Declared amount (in €)	Audited amount (in €)	Coverage
EDUCATION	2.128.216,96	726.053,87	34,12%
CLIMATE change	776.141,97	138.102,26	17,79%
Technical Assistance	104.880,17	27.758,40	26,47%
Bilateral Fund	86.964,00	79.878,89	91,85%
TOTAL	3.096.203,10	971.793,42	31,39%

Table 2: Projects with actual incurred expenditure per Programme

PROGRAMME	Number of projects	Audited projects	Coverage
EDUCATION	15	2	13,33%
CLIMATE change	7	3	42,86%
Technical Assistance	1	1	100%
Bilateral Fund	1	1	100%
TOTAL	24	7	29,17%

Based on the conducted audits, irregularities in the total amount of 7.071,27 € were identified in the sample. The error rate in the sample amounts to 0,73%. The calculated total error rate (TER) in the population amounts to **0,67% and does not exceed the materiality level of 2%**.

Table 3: Audited amounts and ineligible expenditure per Programme

PROGRAMME	Audited amount (in €)	Ineligible expenditure (€)	Error rate in the sample
EDUCATION	726.053,87	7.071,27	0,97 %
CLIMATE change	138.102,26	0,00	0,00 %
Technical Assistance	27.758,40	0,00	0,00 %
Bilateral Fund	79.878,89	0,00	0,00 %
TOTAL	971.793,42	7.071,27	0,73 %

The AA examined the irregularities identified in the projects audits and determined that all of them fall into the category of random errors. The AA did not uncover any systemic errors.

An overview of audited projects and audit findings is presented below.

Table 4: Overview of audited projects

No.	Project	Programme	Type of costs	Declared actual incurred expenditure / Audited expenditure (€)	Ineligible expenditure (€)
1	Barnahus	Education	projects expenditure	469.122,01	6.896,05
2	KIPSI - BlendVET	Education	projects expenditure	256.931,86	175,22
3	Programme management	Climate	programme management	51.874,16	0
4	REWINUUSE	Climate	projects expenditure	40.771,69	0
5	SOPOREM	Climate	projects expenditure	45.456,41	0
6	Basic integration assistance for the displaced persons from Ukraine with temporary protection in Slovenia	Bilateral Fund	bilateral relations	79.878,89	0
7	Technical assistance - Certifying Authority	Technical Assistance	technical assistance	27.758,40	0
TOTAL				971.793,42	7.071,27

Audit of project "BARNAHUS"

<p>Finding No. 1: Project promoter (PP) did not adhere to accounting standards when registering the specified video conferencing equipment in the fixed asset register. The entire set of equipment, including multiple pieces of video cameras, microphones, LCD screens, laptops, tablets, etc., was recorded under a single inventory number. Furthermore, due to an error in stating the price on the invoice, NProj recorded the video conferencing equipment in the fixed asset register with an incorrect value. To ensure proper and transparent accounting monitoring of fixed assets in the register, as well as to provide adequate audit trails, it is necessary to reconcile the value of the equipment and register each piece of equipment with a separate inventory number.</p>	<p>Recommendation No. 1: The PP should align the value of the equipment with its actual value and ensures the separate registration of individual pieces of the purchased equipment in the fixed asset register. NProj should inform the auditing body about this matter by no later than 31 October 2023.</p>
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Implementation of the recommendation:

The recommendation is closed, the auditee has fully implemented the recommendation.

Finding No. 2: The PP does not retain evidence of market research, thus lacking the necessary audit trail for calculating the estimated value of the public procurement, which is not in compliance with Article 105(3) of the Public Procurement Law.

Recommendation No. 2: The PP should ensure a proper audit trail for future market research, serving as the basis for preparing the estimated value in the public procurement process.

Implementation of the recommendation:

The recommendation is closed, the auditee will implement the recommendation in future public procurement procedures.

Finding No. 3: We have determined that the revised delivery deadlines and payment terms in the contract with the contractor TSE, d.o.o., constitute a material change to the contract, in accordance with Article 95(4a,b) of the Public Procurement Act (ZJN-3) and Article 72, point 4 (a,b) of Directive 2014/24/EU. According to point 23(2) of the Commission Guidelines on the determination of financial corrections, a flat-rate financial correction of 25% is prescribed for such a violation.

Recommendation No. 3: The PO and the PP are recommended to implement a flat-rate financial correction of 25% for all certified expenditures under the contract with the contractor. The correction for the audited partner progress report amounts to EUR 6,896.05. The same rate of financial correction should be applied to all expenditures certified under the contract with the contractor TSE d.o.o. in the future.

Implementation of the recommendation:

The recommendation is closed. The PO carried out a correction in the eMS system. The eligible cost will be reduced by €6.896,05 in the 4th project report when reporting to donors in the IFR. Additionally, for all other expenses according to the contract with TSE, the PO will make corrections in the eMS system and the amounts will be reduced when reporting to the donors in the IFR.

Audit of project "KIPSI-BlendVET"

Finding No. 1: Project promoter (PP) did not exclude the reimbursement for blood donation from the personnel costs refunded by Health Insurance Institute of Slovenia. Due to the above, ineligible expenditures in the amount of €105,64 have been identified.

Recommendation No. 1: The PP should only claim justified expenses for reimbursement in the future.

Implementation of the recommendation:

The recommendation is closed. The PO has carried out a correction in the eMS system. The amount of funds unjustly reimbursed was considered in the claim for the 3rd reporting period.

<p>Finding No. 2: The invoices and orders issued by PP based on procurement procedures did not contain the project reference or a separate budget item for the project.</p>	<p>Recommendation No. 2: The PP should ensure the appropriate inclusion of the project reference or a separate budget item for the project on issued orders and received invoices in the future.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee will implement the recommendation in future procurement procedures.</p>	
<p>Finding No. 3: Project partner (PP) 4 has claimed regular work performance bonuses within the personnel costs for the period before the start of the project implementation.</p> <p>Due to the above, ineligible expenditures in the amount of €39,67 have been identified.</p>	<p>Recommendation No.3: The PP should only claim justified expenses for reimbursement in the future.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed. The PO has carried out a correction in the eMS system. The amount of funds unjustly reimbursed was considered in the claim for the 3rd reporting period.</p>	
<p>Finding No. 4: PP5 claimed reimbursement for a strike within the personnel costs, which is not a justified expense for the project.</p> <p>Due to the above, ineligible expenditures in the amount of €29,91 have been identified.</p>	<p>Recommendation No. 4: The PP should only claim justified expenses for reimbursement in the future.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed. The PO has carried out a correction in the eMS system. The amount of funds unjustly reimbursed was considered in the claim for the 3rd reporting period.</p>	
<p>Finding No. 5: PP5, within the framework of executing a record order, obtained and considered a bid from its employee.</p>	<p>Recommendation No. 5: The PP5 should ensure that in the future, during all stages of public procurement procedures, the individuals who are employees or in any way connected to the organization do not participate in the procedures.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee will implement the recommendation in future public procurement procedures.</p>	

Audit of project “Programme Management – Climate”

Finding No. 1: The PP has not clearly defined the percentages of work for individual employees on the project “Programme Management – Climate” and other projects.	Recommendation No. 1: The PP should define the funding shares for employees within various funding sources and projects through an internal document.
Implementation of the recommendation: The recommendation is closed, the auditee has fully implemented the recommendation.	

Audit of project “REWINUUSE”

Finding No. 1: The PP did not install a temporary panel with information on project co-financing, which, according to the provisions of donor regulations, should have been provided based on the value and subject of co-financing.	Recommendation No. 1: The PP should ensure the appropriate installation of a temporary panel during the project implementation, following the requirements of donor regulations and the Communication and Design Manual. After the project's completion, the PP should replace the temporary panel with a permanent one. The PO should verify its implementation and report to the AA within two months of issuing the final report.
Implementation of the recommendation: The recommendation is closed, the auditee has implemented the recommendation.	
Finding No.2: The conditions for setting up a temporary panel and permanent board, as outlined in the Manual for Beneficiaries Part 6: Information and Communication, are not in line with the requirements of donor regulations.	Recommendation No. 2: The PO should align the requirements for the installation of a temporary panel and a permanent board in the Manual for Beneficiaries, Part 6: Information and Communication, with the requirements of donor regulations.
Implementation of the recommendation: The recommendation is closed, the PO has appropriately supplemented the Manual for Beneficiaries, Part 6: Information and Communication.	

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

In the reporting period no outsourced audit work was performed and there was no coordination between audit bodies and the AA.

7. OTHER INFORMATION

In the reference period there was no suspicion of fraud detected and reported.

8. OVERALL LEVEL OF ASSURANCE

In the preparation of the audit opinion for the 6th audit year the AA considered the results of the system audits carried out in the preceding audit year and the results of the audits of projects carried out in the current audit year.

Based on the system audits carried out in the previous audit year, the AA's overall assessment of the MCS is in Category 2 (System works, but some improvements are needed).

Based on the audits of projects, the irregularities in the total amount of 7.071,27 € have been identified. The TER calculated corresponds to **0,67% and does not exceed the materiality level of 2%**. The residual total error rate (RTER) after financial corrections corresponds to 0,44%. The results of audits of projects provide adequate assurance on the legality and regularity of the expenditure declared to the donors.

Concerning the irregularities detected during audits of operation the corrective measures have been implemented by the PPs and PO before the final version of this report.

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

Prepared by:
Maja Švajger
Internal Auditor - Secretary



Patricija Pergar
Director



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE
BUDGET SUPERVISION OFFICE
OF THE REPUBLIC OF SLOVENIA

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

INTRODUCTION

I, the undersigned Patricija Pergar, representing Ministry of finance, Budget Supervision Office of the Republic of Slovenia, 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**, have audited the statements of actual expenditure incurred for the accounting year started on 1 July 2022 and ended 30 June 2023, the legality and regularity of the expenditure for which reimbursement has been requested from the FMC/NMFA/FMO in reference to the accounting year and the functioning of the management and control systems,

in order, to issue an audit opinion in accordance with Article 5.5 of Regulation on the implementation of the Norwegian Financial Mechanism 2014-2021 and Regulation on the implementation of the European Economic Area (EEA) Financial Mechanism 2014-2021.

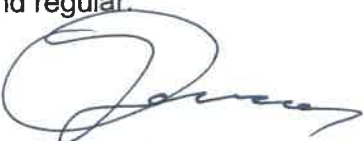
SCOPE LIMITATION

The audit scope was not limited.

UNQUALIFIED OPINION

In my opinion, and based on the audit work performed, 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.

Ljubljana, 5th February 2024


Patricija Pergar
Director

