



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE
BUDGET SUPERVISION OFFICE

Iceland
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Norway grants



Norway grants

2ND ANNUAL AUDIT REPORT

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

January 2020

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1. INTRODUCTION

1.1 Reference period – accounting year

In the reference period from 1st January to 31 December 2019 (accounting year 2019) only declared expenditures for “Technical assistance” and “Bilateral Fund” activities were submitted to donors.

1.2 Reference to the version of the audit strategy applicable

The audit strategy is still in preparation phase.

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

Annual Audit Report describes the audit work done in the year 2019.

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

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;

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 (hereinafter: **AA**) 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.

In the year 2019 AA has performed compliance audit of national entities and audit of two statements of actual expenditure incurred (IFR) presented to the donors by 15 September 2019,

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 Entrepreneurship”.

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

therefore AA can't express an opinion as to whether the management and control system is functioning in compliance with Regulations, but can provide a reasonable assurance that statements of actual expenditure incurred presented to the donors⁴ (are correct and as a 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 and Irregularities Authority: Department for management of EU funds, within the Budget Directorate of the Ministry of Finance
- c) AA: Budget Supervision Office, independent entity of the Ministry of Finance

NFP sent to AA on 31 March 2019 the Description of the management and control system (hereinafter: **DMCS**) of the national entities of the N fm and EEA fm for the period 2014–2021. AA conducted compliance assessment and in July 2019 issued the "Report on the compliance assessment of the management and control system of the national entities for the Norwegian and the European Economic Area financial mechanisms for the period 2014–2021".

AA issued 6 findings and recommendations to national entities:

- not adopted all their internal/external guidelines and instructions,
- not adopted final version of the regulation about executing financial mechanisms in Slovenia,
- training workshops for information system eMS and GRACE, and
- not adopted audit strategy.

All identified deficiencies, which are in more detail stated in point 2.1, 2.3 and 2.4. of the report, refer to auxiliary components of the system and are currently improving (guidelines, draft national regulation, information system eMS in production, draft audit strategy).

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

- complies with the requirements of Articles 5.1 to 5.5 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.

NFP informed AA on 23 December 2019 about supplements in the DCMS of the national entities of the N fm and EEA fm for the period 2014–2021, due to correspondence with the Financial Mechanisms Office. The significant supplements are made mainly in Chapter 9 – Monitoring and reporting system, where administrative verifications of the partner reports shall be carried out on the sample basis, based on a sampling methodology for the administrative verifications developed by the National Control Division. Supplements, which are not significant, are also made in Chapter 11 - Irregularities.

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

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

AA announced and started in the summer 2019 also the compliance assessment of the management and control system of the PO's for the N fm and EEA fm for the period 2014–2021. The audit work and AA's report for the programme level are not finished yet, as the Financial Mechanisms Committee and NFP signed by the end of the year 2019 the Programme Agreement for "Climate change mitigation and adaptation" and the Programme Agreement for "Education, Scholarships, Apprenticeship and Youth Entrepreneurship". AA's compliance assessment of the management and control system of the PO's is continuing in the year 2020.

3. CHANGES TO THE AUDIT STRATEGY

Audit strategy is still in preparation in its draft version.

4. SYSTEMS AUDITS

Considering the state of play of the implementation of the systems in the reporting period, **AA didn't perform system audits** due to late preparation phase of the management and control systems (delay in the DCMS of national entities and DCMS of POs) and due to late Programme Agreements with donors (signed on 18 December 2019).

5. AUDITS OF PROJECTS

In the reporting period AA performed audit of declared expenditures for "Technical assistance" and "Bilateral Fund" activities. On 13 September 2019 NFP and the Certifying Authority issued two Intermediate Financial Reports (hereinafter: **IFR**) No. 1 to donors:

- in the amount of 100.663 € for "Technical assistance" (which represents certified reports of the NFP, AA, Certifying Authority and Irregularities Authority) and
- in the amount of 16.274 € for "Bilateral Fund" (which represents 1 certified report of the NFP).

AA reported on audit of the selected both certified reports of the NFP:

- in the amount of 82.358 € for "Technical assistance" and
- in the amount of 16.274 € for "Bilateral Fund".

On 20 December 2019 AA issued "Audit Report on NFP projects "Technical assistance" and "Bilateral Fund". The audited amount is **98.632 €** from population in the amount of 116.937 €. The sample size is over 84 % (almost 82 % for "Technical assistance" and 100 % for "Bilateral Fund"). In the sample AA hasn't found no irregular amounts (no ineligible expenditure) declared. The total (and residual) **error rate is 0 %** and is under the materiality threshold of 2 %.

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 AA.

7. OTHER INFORMATION

In the year 2019 there was no suspicion of fraud detected and reported.

8. OVERALL LEVEL OF ASSURANCE

As in the reporting period AA hasn't performed system audits, assurance on the proper functioning of the management and control system can't be given. The expenditure from both programs couldn't be declared yet, the result of audit of expenditures for "Technical assistance" and for "Bilateral Fund" gives assurance on the legality and regularity of the expenditure declared to the donors.

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State Internal Auditor



Dušan Sterle
Director





REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE

BUDGET SUPERVISION OFFICE
OF THE REPUBLIC OF SLOVENIA

**For the: Financial Mechanisms Committee (FMC) 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 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 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 2019 no system audits were performed,
- in the reference period the expenditure from both programs couldn't be declared yet, only 2 statements of expenditure were submitted to donors (1. Intermediate Financial Reports 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 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: 22 January 2020

Dušan Sterle, Director



