



REPUBLIC OF SLOVENIA  
MINISTRY OF FINANCE  
BUDGET SUPERVISION OFFICE

Iceland  
Liechtenstein  
Norway grants



Norway grants

# 5<sup>TH</sup> ANNUAL AUDIT REPORT

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

JANUARY 2023

<b>1. INTRODUCTION</b> .....	3
1.1 Reference period – accounting year.....	3
1.2 Reference to the version of the audit strategy applicable .....	3
1.3 Audit period (during which the audit work took place) .....	3
1.4 Identification of the programme(s) covered by the report and of its/their PO(s) .....	3
1.5 Description of the steps taken to prepare the report and to draw the audit opinion .....	4
<b>2. SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEMS</b> .....	4
<b>3. CHANGES TO THE AUDIT STRATEGY</b> .....	5
<b>4. SYSTEMS AUDITS</b> .....	5
<b>5. AUDITS OF PROJECTS</b> .....	7
<b>6. CO-ORDINATION BETWEEN AB AND SUPERVISORY WORK OF THE AA</b> .....	9
<b>7. OTHER INFORMATION</b> .....	9
<b>8. OVERALL LEVEL OF ASSURANCE</b> .....	9

## 1. INTRODUCTION

### 1.1 *Reference period – accounting year*

In the reference period from **1<sup>st</sup> July 2021 to 30 June 2022** the expenditure incurred in this period for managing programmes “Education, Scholarships, Apprenticeship and Youth Entrepreneurship” and for expenditure declared for 2 projects in this programme, for managing programme “Climate Change Mitigation and Adaptation”, and expenditure for “Technical assistance” and “Bilateral Fund” activities were declared to the donors by 8 Intermediate Financial Reports (hereinafter: **IFR**).

### 1.2 *Reference to the version of the audit strategy applicable*

The audit strategy is in version 3 (August 2022).

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

The Annual Audit Report describes the Audit Authority’s work done in the year 2022:

- in January the 4<sup>th</sup> Annual Audit Report was issued,
- after 15 March the first (non-statistical) sample of project’s reports was selected,
- from April to the end of September 3 audits of projects was executed,
- in August the version 3 of the Audit Strategy was adopted,
- in September the system audit report of the National Focal Point and Programme Operators was issued,
- after 15 September the second (non-statistical) sample of project’s reports was selected,
- in October the system audit report of the Certifying Authority and Irregularities Authority was issued,
- in November 2 audits of projects was executed.

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

The report covers the following programme(s)<sup>1</sup>:

- EDUCATION, Scholarships, Apprenticeship and Youth Entrepreneurship,
- CLIMATE Change Mitigation and Adaptation.

The report covers also the following **other allocations**<sup>2</sup>:

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

The report covers the following Programme Operator for both programmes (hereinafter: **PO**):

- European Territorial Cooperation and Financial Mechanisms Section within the European Territorial Cooperation and Financial Mechanisms division (from 1<sup>st</sup> October 2021 to 30 November 2022); due to reorganisation within the Government Office for Development and European Cohesion Policy (from 1<sup>st</sup> December 2022) the Office for Interreg and Financial Mechanisms was established and within it the “Financial Mechanisms Division” as PO.

---

<sup>1</sup> *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).*

<sup>2</sup> *in 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 (amended in June 2022 and November 2022).*

## **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 2014-2021 (Financial Mechanism Office Guidance, Version 2 –June 2022).

In the year 2022 the AA has performed the audit of POs statements of actual expenditure incurred in the reference period and presented to the donors by 15 March and by 15 September 2022; the AA has also performed the audit of National Focal Point's statements of actual expenditure incurred in the reference period for "Technical assistance" and "Bilateral Fund" activities.

The system audits were in the AA's plan for the year 2022; the AA issued the report on the system audit for the National Authorities: National Focal Point, both POs and National Control Unit in September, and the report on the system audit for Certifying Authority and Irregularities Authority in October.

## **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 – 2021<sup>3</sup> 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<sup>4</sup>, both financial mechanisms are sharing the same management and control system:

- a) National Focal Point (hereinafter: **NFP**): European Territorial Cooperation and Financial Mechanisms division (from 1<sup>st</sup> October 2021); due to reorganisation (from 1<sup>st</sup> December 2022) within the Government Office for Development and European Cohesion Policy the Office for Interreg and Financial Mechanisms was established; from 28<sup>th</sup> December 2022 the Ministry for the Cohesion and Regional Development<sup>5</sup> was established (instead the Government Office for Development and European Cohesion Policy).
- b) Certifying Authority (hereinafter: **CA**) and Irregularities Authority (hereinafter: **IA**): 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.
- d) **POs**: the Financial Mechanisms Section (from 1<sup>st</sup> October 2021); due to reorganisation (from 1<sup>st</sup> December 2022) the Financial Mechanisms Division was established within the Office for Interreg and Financial Mechanisms; from 28<sup>th</sup> December 2022 the Ministry for the Cohesion and Regional Development was established (instead the Government Office for Development and European Cohesion Policy).

---

<sup>3</sup> Annexes A were changed by the »Exchange of letters (June 2019)

<sup>4</sup> DCMS Version 1 (July 2019), Version 2 (December 2021) and Version 3 (December 2022)

<sup>5</sup> based on the new Law about the Government of the Republic of Slovenia (OJ No 163 / 27.12.2022)

### 3. CHANGES TO THE AUDIT STRATEGY

The audit strategy for this reference period is in version 3; no major changes in the audit strategy are made, just the update of the audit activities in current year 2022 and the next 2 years.

### 4. SYSTEMS AUDITS

AA executed the system audit on the Management and Control System of the NFP, POs and National Control Unit (hereinafter: NCU):

IMPORTANT FINDINGS AND RECOMMENDATIONS ISSUED by the AA	
<b>Requirement 1: Organization and monitoring of the projects and programs evaluation</b>	
Finding 1	Recommendation 1
At the reorganization of the NFP and POs (from 1.10.2021) proper replacement of the officer for the project's results and the evaluation for both programmes was not assured, i. e. officer was not replaced.	AA's recommendation was fulfilled on 16.5.2022 with the employment of the undersecretary GS, who is in charge for monitoring both programmes from the perspective of the progress at achieving direct effects, results and goals of each program and the evaluation of each program.
The importance of finding: <b>middle</b>	<b>Deadline:</b> the recommendation <b>was implemented</b>
<b>Category of requirement 1:</b> Works, but some improvements are needed (category 2)	
<b>Requirement 2: Selection of projects and allocation of funds</b>	
Finding 2	Recommendation 2
The public tenders for the co-financing of both programs were prepared late in the program period, given that the eligibility period for project expenditures is until April 30, 2024. Since the public tender procedures also lasted more than 12 months, there is a risk of full and timely implementation of all projects and the achievement of the results of both programmes in the remaining time.	AA's recommendation to the NFP in POs to take measures that will lead to the reduction of risks for the timely implementation of projects and programmes is partially fulfilled. POs have appointed a contract administrator for each approved project, and before submitting the first project progress reports, they will organize a workshop for beneficiaries on the topic of reporting and eligibility of expenditures for each program.
The importance of finding: <b>middle</b>	<b>Deadline:</b> recommendation <b>was partly implemented</b>
<b>Category of requirement 2:</b> Works, but some improvements are needed (category 2)	
<b>Requirement 3: Confirmation of expenditure and payments</b>	
<b>Category of requirement 3:</b> Works well (category 1)	
<b>Requirement 4: Reporting to donors</b>	
<b>Category of requirement 4:</b> Works well (category 1)	
<b>Requirement 5: Detection and handling of irregularities</b>	
<b>Category of requirement 5:</b> Works well (category 1)	
<b>Requirement 7: Information and publication</b>	
<b>Category of requirement 7:</b> Works well (category 1)	

#### 4. OVERALL ASSESSMENT of the system at NFP, POs and NCU

Based on the audit of the system at NFP, POs and NCU, we estimate that the system **works**, only minor improvements are needed; our assessment is in category 2.

AA executed the system audit on the Management and Control System of the CA and IA:

IMPORTANT FINDINGS AND RECOMMENDATIONS ISSUED by the AA	
<b>Requirement 1: Organization and separation of functions</b>	
Category of requirement 1: Works well (category 1)	
<b>Requirement 2: Procedures for preparation and submission of IFRs</b>	
Category of requirement 2: Works well (category 1)	
Finding 3	Recommendation 3
During the certification of eligible expenditure ("CA Confirmation no. 20", IFR no. 6) of the project "Technical assistance" (ATP 4), the CA did not upload evidence of its control review to the eMS information system.	Due to complete audit trail, AA recommends uploading evidence of CA's review of the eligible expenditure of this project to the eMS information system.
The importance of finding: <b>middle</b>	<b>Deadline:</b> the recommendation <b>was implemented</b> during the audit.
Category of requirement 3: Works, but some improvements are needed (category 2)	
<b>Requirement 4: Reporting to donors</b>	
Category of requirement 4: Works well (category 1)	
<b>Requirement 5: Detection and handling of irregularities</b>	
Category of requirement 5: Works well (category 1)	
4. OVERALL ASSESSMENT of the CA and IA system	
Based on the audit of the system at the CA and IA, we estimate that the system <b>works well</b> ; our assessment is in category 1.	

**AA has consulted** in writing about finding and recommendation 1 (about the delays at the certification of eligible expenditure of the project) and finding and recommendation 2 (about the eligibility of the advance payment) from the Draft audit report **with the representatives of the Financial Mechanisms Office** in Brussels. Consequently, AA has **withdrawn findings and recommendations 1 and 2**.

As the AA's overall assessment of the system at **NFP, POs and NCU** is in category 2 and the AA's overall assessment of the system at **CA and IA** is in category 1, overall assessment of system as a hole is in the assessment category 2 (**works, but some improvements are needed**).

In compliance with the AA's audit strategy the audit sample for audit of projects is:

- more than **10 % of projects** and
- more than **15 % of expenditure**.

## 5. AUDITS OF PROJECTS

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

PROGRAMME	IFR No	Declared amount (in €)	Audited amount (in €)	Coverage (in %)	Ineligible expenditure (in €)	Error rate (in %)
EDUCATION	5	521.104	38.750	7,44 %	0	0%
EDUCATION	6	74.084	17.696	23,89%	0	0%
<b>EDUCATION</b>		<b>595.188</b>	<b>56.446</b>	<b>9,48 %</b>	<b>0</b>	<b>0 %</b>
CLIMATE change	5	38.366	38.366	100 %	0	0%
CLIMATE change	6	57.832	0	0 %	0	0%
<b>CLIMATE change</b>		<b>96.198</b>	<b>38.366</b>	<b>39,88 %</b>	<b>0</b>	<b>0 %</b>
Technical Assistance	6	40.388	40.388	100 %	0	0%
Technical Assistance	7	52.227	0	0 %	0	0%
<b>Technical Assistance</b>		<b>92.615</b>	<b>40.388</b>	<b>43,61 %</b>	<b>0</b>	<b>0 %</b>
Bilateral Fund	6	0	0	0%	0	0%
Bilateral Fund	7	2.909	2.909	100%	0	0%
<b>Bilateral Fund</b>		<b>2.909</b>	<b>2.909</b>	<b>100 %</b>	<b>0</b>	<b>0 %</b>
<b>TOTAL</b>		<b>786.910</b>	<b>138.109</b>	<b>17,55 %</b>	<b>0</b>	<b>0 %</b>

The declared expenditure for managing programme “**EDUCATION**, Scholarships, Apprenticeship and Youth Entrepreneurship” in the amount of 38.750 € (IFR No 5) and of 56.388 € (IFR No 6) are in total 95.138 € (the audit coverage is 40,73%). The declared expenditure for pre-defined project “BlendVet” (**advance payment** in the amount of **482.353 €**) and for pre-defined project “BARNAHUS” (in the amount of **17.696 €**) are in total 500.049 € (the audit coverage is only 3,53%, because AA didn’t audit the advance payment, as the actual expenditure did not incurred yet).

The declared expenditure for managing programme “**CLIMATE** Change Mitigation and Adaptation” is in the amount of 96.198 €. The AA audited IFR No 5 (39,88% audit coverage). No actual expenditure incurred for project were declared in this programme.

The declared expenditure for other allocations were in the amount of 92.616 € for “Technical assistance” and in the amount of 2.909 € for “Bilateral Fund”. The AA reported on the audit of the selected certified reports in the amount of 40.388 € for “Technical assistance” (43,61% audit coverage) and in the amount of 2.909 € for “Bilateral Fund” (100% audit coverage).

PROGRAMME	IFR No	Declared amount (in €)	Audited amount (in €)	Audit Coverage (in %)	Ineligible expenditure (in €)	Error rate (in %)
EDUCATION - management cost	5	38.750	38.750	100%	0	0%
EDUCATION - project "BlendVet"	5	482.353	0	0%	0	0%
EDUCATION - management cost	6	56.388	0	0%	0	0%
EDUCATION - project "BARNAHUS"	6	17.696	17.696	100%	0	0%
<b>EDUCATION</b>		<b>595.187</b>	<b>56.446</b>	<b>9,48%</b>	<b>0</b>	<b>0%</b>
<b>EDUCATION (without advance payment)</b>		<b>112.834</b>	<b>56.446</b>	<b>50,03%</b>		
CLIMATE change- management cost	5	38.366	38.366	100%	0	0%
CLIMATE change- management cost	6	57.832	0	0%	0	0%
<b>CLIMATE change</b>		<b>96.198</b>	<b>38.366</b>	<b>39,88%</b>	<b>0</b>	<b>0%</b>
Technical Assistance	6	40.388	40.388	100%	0	0%
Technical Assistance	7	52.228	0	0%	0	0%
<b>Technical Assistance</b>		<b>92.616</b>	<b>40.388</b>	<b>43,61%</b>	<b>0</b>	<b>0%</b>
Bilateral Fund	6	0	0	0%	0	0%
Bilateral Fund	7	2.909	2.909	100%	0	0%
<b>Bilateral Fund</b>		<b>2.909</b>	<b>2.909</b>	<b>100%</b>	<b>0</b>	<b>0%</b>
<b>TOTAL</b>		<b>786.910</b>	<b>138.109</b>	<b>17,55%</b>	<b>0</b>	<b>0%</b>
<b>TOTAL (without advance payment)</b>		<b>304.557</b>	<b>138.109</b>	<b>45,35%</b>	<b>0</b>	<b>0%</b>

The total audited amount is **138.109 €** from the population in the amount of 786.911 €, so the sample size is **17,55 %**.

If the advance payment to project "BlendVet" in the amount of 482.353 € would not be considered (as the actual expenditure of this project have not incurred yet), the sample size is **45,35 %**.

In the sample the AA found **no irregular or ineligible expenditure**, so the total error rate is **0 %**.



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

In the reporting period no outsourced audit 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

As in the reference period AA performed system audits, assurance on the proper functioning of the management and control system was given in **category 2** (works, but some improvements are needed). The expenditure from programmes were declared for managing both programmes, for two projects and for "Technical assistance" and "Bilateral Fund" activities. The results of audits of expenditure give **assurance on the legality and regularity of the expenditure** declared to the donors.

Prepared by: Jure Mekinc  
Auditor and State Internal Auditor



  
Patricija Pergar  
Acting Director





REPUBLIC OF SLOVENIA  
MINISTRY OF FINANCE

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 Patricija Pergar, 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 audit examination in the reference period, concerning system audits and audits of projects, was not limited.

## UNQUALIFIED OPINION

I have been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. As the management and control system functions effectively, I can provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC/NMFA/FMO are correct and consequently reasonable assurance that the underlying transactions are legal and regular.

Date: 18<sup>th</sup> January 2023



*Patricija Pergar*  
Patricija Pergar  
Acting Director

