



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE

BUDGET SUPERVISION OFFICE
OF THE REPUBLIC OF SLOVENIA

ANNUAL CONTROL REPORT

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

CCI No 2014TC16RFCB029

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

Final Version



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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
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:
Republic of Croatia
Agency for Audit of European Programmes Implementation System
Alexandera von Humboldta 4/V
1000 Zagreb-Croatia*

- 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 Croatia 2014 – 2020
CCI No 2014TC16RFCB029*

*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 Croatia 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.

The AA analysed the revised version of the DMCS; on base of this desk analysis of the submitted documentation we can confirm that the modifications are in major part referred to the minor changes of formal nature and that none of them have the impact on the proper functioning of the MCS.

In January 2019 the changes in the Croatian part of the DMCS has been announced. The more detailed description of changes is contained in the Chapter 8 of the present report.

In the phase of the finalization of this report the AA received the official information from the MA about the change of the Head of the MA. The first information regarding this change is contained also in the Chapter 8.

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 31 June 2018 the following system audits, in accordance with the audit strategy, have been performed by AA and AB (in Croatia):

- of the Control Unit in Croatia
- 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 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 two CU in Slovenia and Croatia. and the system audit targeted to specific thematic area-functioning and security of IT systems were planned and implemented.

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 task 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

<p>Finding No.2:</p> <p>It was established that in some audited cases in CA certificates no proper audit trail on formal and accounting control in Accountancy is assured.</p>	<p>Recommendation No.2:</p> <p>CA should assure proper audit trail in the phase of confirmation of CA certificates, taking into consideration also »four eyes principle«.</p>
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KR 11: Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained

<p>Finding No.5:</p> <p>No electronic connection between e-MS and i-Center (accounting IT of CA).</p>	<p>Recommendation No.5:</p> <p>CA and MA should prepare action plan which will in long-term period assure interconnection between two IT systems.</p>
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KR12: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of accounts

<p>Finding No.7:</p> <p>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.</p>	<p>Recommendation No.7:</p> <p>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.</p>
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KR 13: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts

<p>Finding No.9:</p> <p>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.</p>	<p>Recommendation No.9:</p> <p>CA and MA should assure in IT system e-MS exact and proper data about public part of founding, payed to the beneficiaries.</p>
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System audit of the Managing Authority

KR 2: Appropriate selection of operations

<p>Finding No.1:</p> <p>During the system audit it was established that in the first two deadlines of Open Call for Proposal the applications fully comply the administrative and eligibility criteria were relatively low regarding the number of applications submitted by applicants.</p>	<p>Recommendation No.1:</p> <p>MA should in the next deadlines of Open Call for Proposals assure to applicants the supplements referred to the compliance with the administrative criterion to assure more equal assessment of applications as well and more widely number of them for further selection.</p>
<p>Finding No.2:</p> <p>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.</p>	<p>Recommendation No.2:</p> <p>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.</p>

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.3:</p> <p>Among the audited project reports it was detected that the Control Unit certified the higher amount of expenditure as to declared by the beneficiary.</p>	<p>Recommendation No.3:</p> <p>Control Unit (in cooperation with MA) should assure that only the amount of expenditure declared by beneficiaries can be include in the FLC certificate. The eventual additional eligible expenditure (established during the first level control) should be declared by beneficiaries (and be subject of first level control) in the frame of the next project report. In accordance with this we recommend also to complete the procedure of the first level control.</p>
<p>Finding No.5:</p> <p>In the CA check list the number of project report is not determined and the date of confirmation is not evident.</p>	<p>Recommendation No.5:</p> <p>MA should assure transparent audit trail in the CA control list (the number of project report and the date of confirmation).</p>

KR 7: Effective implementation of proportionate anti-fraud measures

<p>Finding No.6:</p> <p>MA in its self-assessment of fraud risk didn't proper assess total gross and residual risk</p>	<p>Recommendation No.6:</p> <p>MA should - in accordance with Guidance of EC - fulfil again the self-assessment of fraud risk with the</p>
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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).	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.NCU should respect the four-eye principle when executing the controls. 2. Controllers should in the „FLC certificates“ and „FLC reports“ fill all data entry fields.
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<p>Finding No.5:</p> <p>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.</p>	<p>Recommendation No.5:</p> <p>CU should align its methodology with all the requirements of Art. 125(5).</p>
<p>Finding No.7:</p> <p>CU doesn't have an adequate evidence of on-the-spot verifications in e-MS.</p>	<p>Recommendation No.7:</p> <p>CU should provide in e-MS missing information in regard of the on-the-spot verifications.</p>

System audit of the MCS of the Control Unit in Croatia

There were no findings identified or recommendations given by the AB in Croatia.

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 audit of CU in Croatia (assessed with Category 1) assessed the overall MCS for the CP in Category 2 (“System works, but some improvements are needed”).

5. AUDIT OF OPERATIONS

Indicate the bodies that carried out the sample audits, including the audit authority.

For the reference period the audit of operations for the CP were carried out by the BSO (in Slovenia) and by the ARPA (AB in Croatia). 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 **2.042.774,92 €**.

The value of the population from which the random sample was drawn¹ corresponds to **2.042.799,92 €** (hereinafter population sampled).

The AA reconciled these two amounts; the difference between the above amounts corresponds to the negative amount sample identified. It was treated separately.

The population sampled includes 26 Progress Reports² which corresponds to 15 operations with expenditures certified in the 4th accounting year.

Analysing the population, 2 “high value” operations were identified.

Analysing the remaining part of the population (excluding the “high-value” operations) 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:

¹ Population of positive sampling units.

² Lead Partner level.

Assurance level from the system audit	Recommended coverage	
	on operations	on expenditure declared
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 in Slovenia (1) and in Croatia (1), carried out by the AA and AB, 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 year³.

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

- in first step the “high value” operations were defined; **SLO-HR98 DETOX** and **SLO-HR5 FRISCO1** with the corresponding amounts of certified expenditure 562.356,10 € and 600.873,03 €;
- in second step 2 (1,3) operations out of the remaining 13 operations in the population were selected randomly.
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The selected operations are briefly described in the following table:

	Operation	Priority Axes	Certified amount in €	Audited amount in €
1.	SLO-HR5 FRISCO1	I	600.873,03	600.873,03
2.	SLO-HR98 DETOX	II	562.356,10	562.356,10
3.	SLO-HR49 MALA BARKA 2	II	45.335,76	45.335,76
4.	SLO-HR194 TA3-SI NA/FLC	IV	92.221,16	92.221,16
	Total		1.300.786,05	1.300.786,05

The size of the selected sample corresponds to 63,68% of total certified expenditure in 4th accounting year and 26,6% of number of operations in population.

In the frame of the total expenditure relating to a sampling unit for the accounting year one negative sample amount has been identified in the total amount of **25,00**⁴. This was excluded from the population and was treated separately.

Analysing the above negative amount, the AA can confirm that it is consistent with the amount of financial corrections registered in the CA’s accounting system.

³ The minimum coverage in accordance with Art. 127(1) of Regulation (EU) 1303/2013 is observed.

⁴ It is related to the operation SLO-HR191 TA AA/AB.

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 40.855,50 €.

In the projection of sampling error, the AA applied the “ratio estimation”.

The total (projected) error (TER) presents **2,91%** of the amount of the certified eligible expenditure for the 4th accounting period, which corresponds to the amount of 59.491,72 €. The materiality threshold is exceeded in the amount of 18.636,47 €.

Analysis of the principal results of the audits of operations

During the audits of operations 6 irregularities⁵ in the total amount of 59.492,26 € 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 ARPA (Croatia)	The error rate / audited amount per operation (in %)
1. SLO-HR5 FRISCO1	600.873,03	367,63	120,00	247,63	0,06%
2. SLO-HR98 DETOX	562.356,10	59.124,63	52.623,03	6.501,60	10,51%
3. SLO-HR49 Mala barka2	45.335,76	0,00	0,00	0,00	0,00%
4. SLO-HR194 TA3-SI NA/FLC	92.221,16	0,00	0,00	0,00	0,00%
	1.300.786,05	59.492,26	52.743,03	6.749,23	

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

During the audit of operation DETOX (SLO-HR98; PP7: Municipality Sveta Ana) the AA detected the irregularity for which, on base of additional analysis, was estimated the existence of potential risk of the presence of the same type of the irregularity also in other operations approved in the frame of the CP (especially under Priority 2: Preservation and sustainable use of natural and cultural resources).

In the frame of the audit was established that the recipient of part of the funds (investments) is not the final beneficiary (PP7) Municipality Sveta Ana, but to the owner of the house (homestead) on which the restoration work (co-financed from INTERREG V-A Slovenia-Croatia) was done. The beneficiary and the owner have agreed the long-term⁶ lease contract, in which the rights to use the house by the single part have been defined as follows:

- the right of the owner to use the house without any limitation and to rent the house to third persons for his own business

⁵ In the number of the irregularities no the corrections of the flat rate have been considered.

⁶ The long term lease of the house has been stipulated for the period till 31 of December 2024.

- the rights of beneficiary (as lesee) to co-use the house in form of entrance in the house for purposes of tourist visits.

The parts agreed also that the amount of rent for the entire period of lease are equivalent to the amount of investments in the house made by beneficiary (amount co-financed by the CP INTERREG Slovenia Croatia).

All the elements, described above and contained in the contract, were confirmed by the auditors during on the spot visit. On base of the recommendations in draft version of the audit report adressed to the PP7, the lease contract has been modified in relation to the owner's rights. According to this, the amount of financial corrections initially proposed has been reduced in the final version of the report.

On bases of the irregularities detected the AA adressed to the MA the letter, where the additional actions as well the adequate action plan were requested, in order to avoid the risk of presence of similar type of irregularities also in other operations approved in the frame of the CP. In January of this year the MA submitted the additional clarification to the AA, where described the actions took by the MA in cooperation with the JS:

- in the first step the MA/JS identified the potential risky operations, which include investments in the private ownership; following this activity the list of the 9 operations was defined by the MA;
- in the second step the desk analysis of the relevant documents submitted by the beneficiaries were performed by the MA/JS
- in addition on the spot checks have been implemented by the JS for all the above identified investments already concluded in the period till January 2019
- for all the remaining investments identified, the site visits are planned, in accordance with the time of implementation of the single investment plans, in the period till November 2020.

In addition the MA, through the written communication to all the beneficiaries, informed them to put the proper attention on adequate legal bases, in case of lease, in order to assure to themselves (and to the proper outcomes of operations) the full (unlimited) rights of use of immoveable property, subject of the lease.

The same informations, to put a special attention not only on the form but also on the content of the single contracts (especially during on the spot visits) have been adressed to the both CU.

During the desk verifications as well during this first phase of on the spot checks performed by the MA/JS, as declared in the letter, no similar irregularities have been revealed.

Therefore the AA, analysing the activities as well the results reported by MA in the letter of 15 January 2019, has no sustainable reasons to consider relevant the potential risk of existence of the similar type of irregularities also in other operations approved in the frame of CP.

Obvisously the AA (in cooperation with AB) will verified the consistency of the above results also during the next audits of operations and system audits in the frame of the CP.

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

The total error rate (TER), calculated with “ratio estimation” method represents 2,91% of the amount of the certified expenditure in the population for the 4th accounting year, which corresponds to the amount of 59.491,97 €. Compared with materiality threshold, 2% of the expenditure included in the population, TER exceed it in the amount of 18.636,47 €.

The financial corrections 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%.⁷

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 period December 2017-March 2018;
- audits of operation with the expenditure certified in 4th accounting year in the period from 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.

⁷ In detail see Annex 3 “Calculation RTER”.

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 Chapter 4, 4 audits of operations were performed, which included 49 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 checked⁸; no inconsistency have been revealed.

The AA reconciled the total amount of eligible expenditure entered in the draft accounts to the total amount of expenditure included in the payment applications submitted to the EC. The differences between corresponds to the amount of **59.492,26 €**.

The AA analysed the above amount; it corresponds to the sum of the following final corrections:

- the amount of 59.124,63 € corresponds to the irregularities detected during audit of operation DETOX,

⁸ 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.

- the amount of 367,63 € corresponds to the irregularities detected during audit of operation FRISCO1.

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

In the following table the reconciliation between the amounts declared in the Final Interim Payment Application and amounts included in the Annual Accounts (final version) is presented. In correspondence to the draft version (II) of the Annual Accounts no additional informations have been reported in its final version.

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 €)
	2.042.774,92	2.042.774,92	1.983.282,66	1.983.282,66	59.492,26	59.492,26

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 CUs as well the on the spot checks performed by the Slovenian and Croatian 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 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 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 AB agreed with the sample of operations for the 4th accounting year⁹. Based on the results of the single audits the BSO as the AA for 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 auditor¹⁰. This audit was performed under the quality supervision of the AA.

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 January 2019, in the period of preparation of this report, the AA received from Croatian Partner Ministry of Regional Development and EU funds the official information on institutional change of the Croatian First Level Control Body of the INTERREG Programmes. The modification, based on Government Conclusion of 2 August 2018 and entered into force on 1 January of 2019, include the merger of the Agency for Regional Development of the Republic of Croatia with the Ministry of Regional Development and EU funds. Basing on the information received by the letter, all the previous roles and responsibilities of the mentioned Agency in the function of the Control Unit (FLC) have been transposed to the new body. Actually, modification is still in process and we are not, basing on the received documents, able to assess the level of the impact on the functioning of the MCS. It will be analysed after the revised version of the DMCS and other relevant documents will be properly changed and updated, upon this the AA (in cooperation) with AB in Croatia will decide if, in accordance with Chapter 2 of the Audit Strategy for the CP, the revision of the rank list of the system audits is necessary.

In the same time the official letter from the MA have been received 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

⁹ 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.

¹⁰ 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.

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 data¹¹ 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's in Slovenia and in Croatia, 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, the irregularities in the total amount of 59.492,26 € have been identified¹². In one of operation (DETOX), upon the identification of the potential risk of the existence of the similar irregularities also in other operations approved in the frame of the CP, the MA performed the additional checks. The AA analysed the results of this additional verifications and on base of them exclude the existence of the potential risk of similar type of irregularities also by other beneficiaries in the frame of the CP.

The TER calculated corresponds to **2,91%** of the amount of the certified eligible expenditure for the 4th accounting period and exceeds the materiality level of 2%.

Concerning the irregularities detected during audits of operation the corrective measures have been implemented by the MA before the final version of the ACR.

The RTER calculated upon the corrections applied corresponds to 0%.¹³

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 the AA in cooperation with AB, the AA provides reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts.

¹¹ Operations in the very early phase of implementation.

¹² All the irregularities were detected in two "high value" operations DETOX and FRISCO 1.

¹³ See also Annex 3 of the present report.

Considering that the MCS is classified in Category 2, TER corresponds to 2,91% and upon the corrective measures applied by the MA the RTER corresponds to 0%, the AA expresses 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 2014TC16RFCB029, CP INTERREG V-A Slovenia Croatia 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 Managing Authority</i>	February 2018	1	2	1	/ ¹⁴	2	2	2	2						2		
CU SLO	ERDF	<i>System audit of the Control Unit in Slovenia</i>	April 2018	2	/ ¹⁵	/	2	2	1	/	/						2		
CU CRO	ERDF	<i>System audit of the Control Unit in Croatia</i>	May 2018	1	/ ¹⁶	/	1	1	1	/	/						1		
CA	ERDF	<i>System audit of the MCS of the Certifying Authority</i>	February 2018										2	3	2	2	2	2	

¹⁴ KR 4 was not part of MA system audit

¹⁵ KR 2, 3, 7 and 8 were not part of CU SLO system audit

¹⁶ KR 2, 3, 7 and 8 were not part of CU CRO 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 €) 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	2014TC16R FCB029	INTERREG V-A SI HR	2.042.799,92	1.300.786,05	63,68	26,6	63,68	59.492,26	2,9%	59.492,26	0%	n/A	n/A

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	DETOX	SLO-HR98	562.356,1	SI	Občina Lenart (LP)	152.349,33	1.161,44	External expertise and services	Violation of principles of public procurement; selection criteria was not related and proportional to the subject-matter of the contract.	Ineligible expenditure	Random error	1.161,47
							133,69	Flat rate	Flat rate correction on Personnel and Administrative Costs	Ineligible expenditure	Random error	133,66
					Občina Sveta Ana (PP7)	125.191,80	1.960,00	External expertise and services	The cost for development of new tourist product was declared by PP7, yet this cost was already ordered and declared by LP.	Ineligible expenditure	Random error	1.960,00
							225,40	Flat rate	Flat rate correction on Personnel and Administrative Costs	Ineligible expenditure	Random error	225,40
							44.073,92		Ineligible investment in private-owned	Ineligible expenditure	Random error	44.073,97

								Infrastructu re and works	apartment that was mainly used for commercial rent and not for purpose of the Operation.			
						5.068,08	Flat rate	Flat rate correction on Personnel and Administrative Costs Flat rate	Ineligible expenditure	Random error	5.068,53	
				HR	Općina Donja Voća (PP6)	48.039,70	5.831,02	Infrastructu re and works	Violation of principles of public procurement: the principle of equal treatment was not respected by inviting economic operators who do not comply with selection criteria which lead to the limitation of fair competition.	Ineligible expenditure	Random error	5.831,02
						670,58	Flat rate	Flat rate correction on Personnel and Administrative Costs Flat rate	Ineligible expenditure	Random error	670,58	
	DETOX - TOTAL											59.124,63
2	FRISCO1	SLO-HR5	600.873,03	SI	Ministrstvo za okolje in prostor (PP2)	17.069,11	120,00	Travel and accomodat ion	Ineligible travel costs for employees that had not got proper legal basis for working on the project.	Ineligible expenditure	Random error	120,00
				HR	Državni hidrometeorolo	77.791,71	201,29	Travel and accomodat ion	Incorrectly calculated daily allowances.	Ineligible expenditure	Random error	201,29

					ški zavod (PP6)		46,30	Flat rate	Flat rate correction on Administrative Costs Flat rate.	Ineligible expenditure	Random error	46,34
FRISCO1 - TOTAL											367,63	
Total irregular expenditure (in €)											59.492,26	

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

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