



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE

BUDGET SUPERVISION OFFICE
OF THE REPUBLIC OF SLOVENIA

ANNUAL CONTROL REPORT

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

CCI No 2014TC16RFCB054

referred to the 5th accounting year
from 1st July 2018 to 30 June 2019

Final Version



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1. INTRODUCTION

1.1 Identification 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 (hereinafter BSO)

Sector for Auditing other Funds under shared Management

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:

Federal Ministry of Agriculture, Regions and Tourism

Department ERDF Audit Authority

Ferdinandstrasse 4

A-1010 Vienna - Austria

1.2 Indication of the reference period.

The period from 1 July 2018 to 30 June 2019 represents the reference period in accordance with Art. 2(29) of Regulation (EU) No.1303/2013

1.3 Indication of the audit period.

The Annual Control Report is referred to the audit work performed in the (audit) period from 1 July 2018 to the date of the submission of it to the EC.

1.4 Identification of the operational programme(s) covered by the report and of its/their managing and certifying authorities.

COOPERATION PROGRAMME INTERREG V-A Slovenia Austria 2014 – 2020

CCI No 2014TC16RFCB054

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

1.5 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)

2.1 Details of any significant changes in the management and control systems related with managing and certifying authorities' responsibilities.

In November 2019 the MA submitted to the AA the revised version of the Description of the Management and Control System (hereinafter DMCS), which include changes of the management and control system (hereinafter MCS) referred to the period from November 2018 to November 2019.

The following changes in the organisational structure of the Managing Authority and National Control Unit (hereinafter NCU) in Slovenia have been included:

- The new appointment of the Head and Deputy Head of the Managing Authority in January 2019 (Mr. Dimitrij Pur and Ms. Tanja Renner)
- The new appointment of the Head of the National Control Unit in Slovenia (Ms. Maja Martinšek)

Based on the desk analysis of the revised version of the DMCS, AA concluded that the above described changes of the staff of the MA and NCU represent only minor changes in the MCS, considering that all the new appointments represent the staff that were already involved in the INTERREG Programmes for several times, and therefore they have no substantial impact on the functioning of the MCS.

On 29th of January 2020, the Federal Ministry for Sustainability and Tourism in Austria has changed in the Federal Ministry of Agriculture, Regions and Tourism. Upon the AB explanation, the institutional change has no substantial consequences for the department »ERDF Audit Authority«, which acts in the role of the Audit Body of the CP.

2.2 Information relating to the monitoring of the designated bodies according to Article 124(5) and (6) of Regulation (EU) No 1303/2013.

No information relating to the monitoring of the designated bodies according to art 124(5)(6) of Regulation No. 1303/2013 have been received until the phase of the preparation of this report.

2.3 The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as the impact of these changes to the audit work are to be indicated.

Please see Chapter 2.1 of the present report.

3. CHANGES TO THE AUDIT STRATEGY

3.1 Details of any changes to the audit strategy, and explanation of the reasons.

Upon the request of the Audit Body to postpone 2 system audits of 2 National Control Units in Austria (Regionalmanagement Burgenland and Amt der Steiermärkischen Landesregierung),

which have been planned to be implemented in the first half of 2019, to implement them by the end of June 2020, the Audit Strategy (version 1.1) was updated in May 2019. The AA agreed with the proposal, considering, as also explained by AB, that 2 NCU's in the previous programming period worked well and that only minor deficiencies have been identified during the system audits. Any way the AB and AA agreed, during the GoA meeting, that in case where the irregularities during the audit of operations are identified in the frame of the expenditures approved by this 2 NCU's, the AB will immediately start with the system audit (before the time established). In accordance with the agreed the long-term and mid-term audit plan have been revised.

3.2 Differentiation between the changes made or proposed at a late stage, which do not affect the work done during the reference period and the changes made during the reference period, that affect the audit work and results.

Please see explanation of the changes of the strategy in the Chapter 3.1 of this report.

4. SYSTEM AUDITS

4.1 Details of the bodies (including the Audit Authority) that have carried out audits on the proper functioning of the management and control system of the programme – hereafter "system audits".

Audit Authority and Audit Body have performed planned follow-up of system audits in the 5th accounting year (please see Chapter 1.1 of this report).

4.2 Description of the basis for the audits carried out, including a reference to the audit strategy applicable, more particularly to the risk assessment methodology and the results that led to establishing the audit plan for system audits.

Taking into consideration that relatively small number of the programme/bodies participate in the MCS and in addition 2 of them (MA and NCU 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 least twice in the programming period. Additionally, the sequence order for the system audits of thematic issues has been created.

Based on this premises the AA in cooperation with AB established the rank list of system audits per period 2018 – 2022. According to the rank list in 2018 system audits of MA, CA, NCU in Slovenia and 2 NCUs in Austria have been planned and implemented.

In 2019, considering that no substantial changes of the MCS occurred and no specific problem areas were identified during the previous audits, the system audits of 2 (remaining) NCUs in Austria and follow up of system audits implemented in 2018 have been planned.

As explained in the Chapter 3.1, the AA, upon the request of the AB, proceed with the change of the mid-term audit plan and updating of the Audit Strategy. Implementation of 2 system audits of 2 NCUs (Regionalmanagement Burgenland and Amt der Steiermärkischen

Landesregierung) have been postponed in first half of 2020. The AA agreed with the postponement as no major deficiencies have been identified in their functioning during system audits of the previous programming period and as no important irregularities have been identified during audits of operation (in connection with these 2 NCUs).

In 2019, considering that no substantial changes of the MCS occurred and no specific problem areas were identified during the previous audits, the follow-up of system audits have been implemented.

4.3 Description of the main findings and conclusions drawn from system audits, including the audits targeted to specific thematic areas, as defined in section 3.2 of Annex VII of Regulation (EU) 2015/207.

No system audits were performed during the period from 1 July 2018 to 31 June 2019.

In December 2019 the AA started specific thematic audit on performance data reliability. In the time of preparation of this report the audit on performance data reliability is not finalized yet. Therefore, the results obtained from this specific audit will be included in the relevant system audit report and the 6th Annual Control Report.

4.4 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, in line with Article 27(5) of Regulation (EU) No 480/2014.

No errors of systemic nature were identified during follow-up of system audits.

4.5 Information on the follow-up of audit recommendations from system audits from previous accounting years.

In accordance with the audit plan, the following follow-up of system audits have been performed by AA and AB (in Austria):

- Follow up of 2 system audits of 2 National Control Units in Austria (KWF, AKL)
- Follow up of system audit of the National Control Unit in Slovenia
- Follow up of system audit of the Managing Authority
- Follow up of system audit of the Certifying Authority

The table in annex 1 to this report indicates for each body audited by the AA and AB the assessment related to each key requirement, resulting from the follow-up of system audits listed above.

Follow-up of System audit of the MCS 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: During the system audit of CA, it was established that the composition of the</p>	<p>Recommendation No.1: It was recommended that the Slovenian Regional Development fund, under which</p>
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Supervisory Board of the Slovenian Regional Development fund (CA) and its area of the functions doesn't assure total independence of CA.	responsibility is also the CA, assure (through formal changes or changes in human resources in the Supervisory Board) the independent position of CA.
<p>Implementation of the recommendation:</p> <p>The recommendation is still open. At the time of the follow-up audit the recommendation was not implemented yet. The auditee has formally changed the Rules of procedure of the Supervisory Board in the part, where members could be excluded in the case of Conflict of Interest. Nevertheless, the composition of Supervisory Board has not been changed regarding the member from the MA.</p>	

KR10: Adequate procedures for drawing-up and submitting payment applications

<p>Finding No.3:</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.3:</p> <p>CA should assure proper audit trail in the phase of confirmation of CA certificates, taking into consideration also »four eyes principle«.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation.</p>	

KR 11: Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained

<p>Finding No.6:</p> <p>No electronic connection between e-MS and i-Center (accounting IT system of CA), with which direct transmission of data about payments from EC and the executed payments to the Lead Partners would be possible.</p>	<p>Recommendation No.6:</p> <p>CA and MA should prepare action plan which will in long-term period assure interconnection between two IT systems.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is still open. At the time of the follow-up audit the recommendation was not implemented yet. The auditee explained, that establishing the interconnection between two IT systems are economically to expensive (considering also the dimension of the Programme). Actually, the auditees internal controls ensure accuracy, completeness and veracity of data about payments from EC and the executed payments to the Lead Partners. In the frame of audit of accounts for 5th accounting year, AA did not find any incompliances in the above-mentioned data. Considering the status of implementation of the recommendation, it is considered still open.</p>	

KR12: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of accounts

<p>Finding No.8:</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.8:</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>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation.</p>	

KR 13: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts

<p>Finding No.10:</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.10:</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>
<p>Implementation of the recommendation:</p> <p>The recommendation is still open. At the time of the follow-up audit the recommendation was not implemented yet.</p>	

Follow-up of System audit of the MCS of the Managing Authority

KR 2: Appropriate selection of operations

<p>Finding No.1:</p> <p>AA established that in the phase of the selection of the operations in case of presence of minor administrative incompliances, the possibility to supplement the applications by applicants will increase in important manner the number of applications fully complied with administrative and eligible criteria.</p>	<p>Recommendation No.1:</p> <p>MA should in the next deadlines of open call for proposals assure, that applicants could submit the supplements referred to the compliance with the administrative criterion, in order to assure more equal assessment of applications as well and more widely number of them for further selection.</p>
<p>Implementation of the recommendation: The recommendation is closed, the auditee has fully implemented the recommendation.</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>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation. As the IT system e-MS don't provide check lists with the date of assessment and the name of the controller the AA audited the correctness of the audit trail in the frame of the table "AUDITLOG" extracted from the e-MS. In the detailed check of the "AUDITLOG", AA did not find any incompliances in the audit trail in the phase of assessments of the applications as well as in the phase of the managing verifications.</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>In the check list of the contract's manager (JS) the number of project report is not determined, and the date of his/her review is not seen.</p>	<p>Recommendation No.3:</p> <p>MA should assure transparent audit trail in the check list of the contract's manager (the number of project report and the date of his/her review)</p>
<p>Finding No.5:</p> <p>In the CA check list in the e-MS, 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 check list (the number of project report and the date of confirmation).</p>
<p>Implementation of the recommendations No.3 and No.5:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation. Please see the explanation under the implementation of the recommendation No.2.</p>	

KR 7: Effective implementation of proportionate anti-fraud measures

<p>Finding No.6: MA in its self-assessment of fraud risk didn't properly assess total gross and residual risk 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).</p>	<p>Recommendation No.6: MA should - in accordance with Guidance of EC - fulfil again the self-assessment of fraud risk with the proper expert group and the proper method of risk assessment (gross risk and residual risk after additional controls/measures implemented).</p>
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Implementation of the recommendation:

The auditee has partially implemented the recommendation, the recommendation is still open. MA has prepared and updated the self-assessment of fraud risk for the year 2018 and 2019 in compliance with Guidance of EC for assessment of fraud risk. Because the assessment of fraud risk is on-going process during the implementation of the OP, the recommendation remains open.

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.

Implementation of the recommendation:

The auditee has partially implemented the recommendation, the recommendation is still open. During follow-up audit it was established that the access to ARACHNE is available to all NCUs. The MA has organized two IT tool ARACHNE trainings for NCUs in 2018 and 2019. The additional/refreshing trainings are recommended to be organised by the MA, in order to improve the better use of this IT toll.

Finding No.10:

It was established during the system audit that employees have not enough trainings on anti-fraud measures.

Recommendation No.10:

MA should plan and realize more trainings of the employees on anti-fraud measures.

Implementation of the recommendation:

The auditee has partially implemented the recommendation, the recommendation is still open.

Follow-up of System audit of the MCS 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/NCU are being controlled by the controller of the NCU.

Recommendation No.2:

NCU should together with the MA put in place adequate procedures and arrangements to assure separation of duties of management verifications and Beneficiary.

Implementation of the recommendation:

The auditee has partially implemented the recommendation, the recommendation is still open. During the follow up audit it was established that NCU assured that the controls of the TA NA/NCU, are implemented by two controllers, which salaries are being payed from National budget. Nevertheless, auditee should assure separation of duties of management verifications and duties of beneficiary also in organizational manner.

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. CU 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.

Implementation of the recommendation:

The auditee has partially implemented the recommendation, the recommendation is still open. AA received response from NCU that technical modifications about the “FLC certificate” in the e-MS have been implemented. The fulfilment of the recommendation will be verified during audits.

Finding No.5:

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.

Recommendation No.5:

NCU should align its methodology with all the requirements of Art. 125(5).

Implementation of the recommendation:

The auditee has partially implemented the recommendation, the recommendation is still open. NCU has partly updated the Methodology for sampling operations for on-the-spot verifications in previous reporting year and it will update it again until the end of this reporting year. AA will check the implementation of the recommendation in the next follow-up audit.

Follow-up of System audit of the MCS of the Control Unit in Austria – KWF - Kärntner Wirtschaftsförderungsfond (hereinafter KWF)

KR4: Adequate management verifications

<p>Finding No. 1:</p> <p>The AB, during the on-the-spot-check, established that there was no written procedure available for the selection of random sampling in connection with payment of salaries and payment of non-wage staff-costs.</p> <p>Within the statement, according to a procedure for random sampling handed in later by the NCU, was constructed after the on-the-spot-check and relates to annotations of national regulation for eligibility 2014-2020 for the programme Investment for growth and jobs.</p> <p>Regulations within the programme INTERREG V-A SI-AT were not available.</p>	<p>Recommendation No. 1:</p> <p>The AB recommends an obligatory determination of measures/methods for selection of random sample for the future (before the management verification procedure starts). In this way it can be ensured, that the methodology is obligatory for every NCU-employee, even (in personal changes) for the future staff.</p>
<p>Implementation of the recommendations:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation.</p>	

Follow-up of System audit of the MCS of the Control Unit in Austria - Amt der Kärntner Landesregierung (hereinafter AKL)

KR4: Adequate management verifications

<p>Finding No. 1:</p> <p>The AB, during the on-the-spot-check, established that there was no written procedure available for the selection of random sampling in connection with payment of salaries and payment of non-wage staff-costs. As an example, for agreed selection of random sample the audited bodies handed in later a document of start-up-dialogue with the beneficiary (project EU-Futur). Only on the basis of this document the scope of random sample was traceable for the AB.</p>	<p>Recommendation No. 1:</p> <p>The AB recommends an obligatory determination of measures/methods for selection of random sample for the future (before the management verification procedure starts) in order to ensure the availability of a correct audit trail.</p> <p>In this way it can be ensured, that the methodology is obligatory for every NCU-employee, even (in personal changes) for the future staff.</p>
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Implementation of the recommendations:

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

4.6 Description (where applicable) of specific deficiencies related to the management of financial instruments or other type of expenditure covered by particular rules (e.g. State aid, revenue-generating projects, simplified cost options), detected during system audits and of the follow-up given by the managing authority to remedy these shortcomings.

n/a

4.7 Level of assurance obtained following the system audits (low/average/high) and justification.

Overall conclusion by the MCS:

BSO as the AA for the CP, on the basis of the results and conclusions of the system audits and the follow-up of system audits of MA, CA and NCU in Slovenia (all bodies remain assessed with Category 2) and of the follow-up of system audits of 2 NCUs in Austria (both NCUs remain 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

5.1 Indicate the bodies that carried out the audits of operation, including the audit authority.

For the reference period the audit of operations in Slovenia were carried out by the BSO. The audit of operations in Austria were mainly outsourced to external auditors by the Audit Body on the basis of a general contract between the Audit Body and 4 external auditors¹, which is used for several ERDF programmes in Austria.

According to the contract the coordination between AB and external Auditor is defined. To ensure that quality of the work by the other auditors is acceptable and adequate, AB performed additional audit procedures: AB supervised the audit reports in the draft versions and in the final versions, AB also verified the work of external auditors during the on-the-spot audits (sample). Any way all audit work performed by external auditors was subject of desk-review by the AB.

According to Rules of Procedure of the Group of Auditors, each body (AA, AB with external auditors) prepared the partial reports on performed audits of operations for the beneficiaries (project partners) in the relevant territory of the programme.

¹ The 4 External Auditors are:

- MOORE STEPHENS City Treuhand GmbH; Kärntner Ring 5-7, 1010 Wien
- PwC Wirtschaftsprüfung GmbH, Donau City Straße 7, 1220 Wien
- KPMG Austria GmbH, Porzellangasse 51, 1090 Wien
- Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (E&Y), Wagramer Straße 19, IZD-Tower, 1220 Wien

5.2 Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy.

AA used a non-statistical sampling method to select a sample of operations for the reference period (5th accounting year). According to Audit Strategy the method, used by the AA was defined analysing the characteristics of the population: number of operations (with certified amounts), number of Project Progress Reports and Partner Progress Reports, size (in terms of certified amount per year) and type of operations.

5.3 Indication of the parameters used for statistical sampling and explanation of the underlying calculations and professional judgement applied.

AA used a non-statistical sampling method to select a sample of operations for the reference period (5th accounting year). Please see explanation in Chapter 5.6 of this report.

5.4 Reconciliation between the total expenditure declared in euro to the Commission in respect of the accounting year and the population from which the random sample was drawn.

In the 5th accounting year the CA declared, in the frame of CP, to the Commission the expenditure in the total amount of **8.330.886,75 €**.

The value of the population from which the random sample was drawn² corresponds to **8.364.296,74 €** (hereinafter population sampled).

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

5.5 Where there are negative sampling units, confirmation that they have been treated as a separate population according to Article 28(7) of Commission Delegated Regulation (EU) No 480/2014.

In the frame of the total expenditure relating to a sampling unit for the accounting year five (5) negative sample amounts have been identified in the total amount of **33.409,99³**. 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.

5.6 In case of the use of non-statistical sampling, indicate the reasons for using the method in line with Article 127(1) of Regulation (EU) No 1303/2013, the percentage of operations/expenditure covered through audits, the steps taken to ensure randomness of the sample (and thus its representativity) and to ensure a sufficient size of the sample enabling the Audit Authority to draw up a valid audit opinion.

The population sampled in total value of 8.364.296,74 € includes 53 Project Progress Reports⁴ which correspond to 31 operations with expenditures certified in the 5th accounting year.

² Population of positive sampling units.

³ Negative amounts are related to the operations SIAT1 TA 3 – BGLD and SIAT22 PalaeoDiversiStyria.

⁴ Lead Partner level.

Considering the size of the population sampled, 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 into 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 the system audits:

Assurance level from the system audit	Recommended coverage	
	<i>on operations</i>	<i>on expenditure declared</i>
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 5th accounting year the assurance level from system audits was estimated, based on the results of the performed system audits and follow-up of system audits of MA, CA and NCUs in Slovenia (1) and in Austria (2), 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 (min) 10% of operations and in terms of expenditure declared 10% of amount of expenditure declared in the 5th accounting year⁵.

Analysing the population, no “high value”⁶ operations were identified. Following the recommended coverage on operations, 4 (3,1) operations were randomly selected in the population of 31 operations.

The selected operations are briefly described in the following table:

	Operation	Priority Axes	Certified amount in €	Audited amount in €
1.	SIAT74 Expedire	I	394.998,62	394.998,62
2.	SIAT45 Smart Production	I	536.312,57	536.312,57
3.	SIAT86 NEKTEO	III	692.967,72	692.967,72
4.	SIAT5 TA3 - KTN	IV	42.401,81	42.401,81
	Total		1.666.670,72	1.666.670,72

The size of the selected sample corresponds to 19,92% of total certified expenditure and to 12,90% of number of operations in the population for the 5th accounting year. Consequently, the size of selected sample follows the recommended coverage.

⁵ The minimum coverage in accordance with Art. 127(1) of Regulation (EU) 1303/2013 is observed.

⁶ The high-value operations: the operations where the total amount of certified expenditure in the 5th accounting year is higher than 2.019.074,19 € (8.364.296,74 € total certified amount /4 operations to be selected). Analysing the population just two operations had total certified amount slightly above 600.000 € (NEKTEO and Flagship Products – appr.8% of population).

5.7 Analysis of the principal results of the audits of operations.

During the audits of operations 10 irregularities in the total amount of 6.419,39 € 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 Federal Ministry of Sustainability and Tourism (AT)	The error rate / audited amount per operation (in %)
1. SIAT74 Expedire	394.998,62	2.009,05	1.993,77	15,28	0,51%
2. SIAT45 Smart Production	536.312,57	3.900,46	3.898,26	2,20	0,73%
3. SIAT86 NEKTEO	692.967,72	509,88	0,00	509,88	0,07%
4. SIAT5 TA3 - KTN	42.401,81	0,00	0,00	0,00	n/a
	1.666.670,72	6.419,39	5.892,03	527,36	

The AA analysed the irregularities detected during the audits of operations and concluded that all of them are categorized as random errors. No systemic, known or anomalous errors were found by the AA and AB during the audits.

A brief description of 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 this report.

The materiality threshold is determined at 2% from the certified eligible expenditure for the 5th accounting year, which amounts to 167.285,93 €.

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

The total error rate (TER), presents **0,39%** of the amount of the certified eligible expenditure for the 5th accounting year, which corresponds to the amount of 32.216,13 €. Therefore, the materiality threshold is not exceeded.

5.8 Explanations concerning the financial corrections relating to the accounting year and implemented by the certifying authority/managing authority before submitting the accounts to the Commission as a result of the audits of operations, including flat rate or extrapolated corrections.

The financial corrections in absolute value (6.419,39 €), related to the irregularities detected during the audits of operations performed in 2019, have been deducted⁷ by CA before submitting the final accounts to the Commission.

⁷ Please see also in the Chapter 6.3 of this report

5.9 Comparison of the total error rate and the residual total error with the set materiality level, in order to ascertain if the population is materially misstated and the impact on the audit opinion.

As the corrective measures have been taken before the finalization of the ACR, the RTER⁸ has been calculated. It corresponds to **0,31%** and it is below the materiality level of 2%.

5.10 Information on the results of the audit of the complementary sample.

No complementary sample has been audited in the 5th accounting year.

5.11 Details of whether any problems identified were considered to be systemic in nature.

No systemic errors were found by the AA and AB during the audit of operations in the 5th accounting year.

5.12 Information on the follow-up of audits of operations carried out in previous years, in particular on deficiencies of systemic nature.

No systemic errors were found by the AA and AB during the audit of operations in the 4^h accounting year. All financial corrections (992,89 €) related to the irregularities detected during the audits of operations performed in 2018 have been deducted by CA before submitting the final accounts for 4^h accounting year to the Commission.

5.13 Conclusions drawn from the overall results of the audits of operations with regard to the effectiveness of the management and control system.

Based on 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

6.1 Indication of the authorities/bodies that have carried out audits of accounts.

The audit of accounts for the 5^h accounting year have been performed by the Audit Authority for the CP.

6.2 Description of audit approach used to verify the elements of the accounts.

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 follow-up of system audits of the CA for the CP, which have been performed by the AA in period December 2018-March 2019;

⁸ Please see the calculation of RTER in Annex 3.

- audits of operation with the expenditure certified in 5th accounting year in the period May-December 2019;
- additional final verifications of audits of accounts in January 2020.

All the procedures for additional final verifications have been performed 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 until 30 November
- submission of second draft of Annual accounts for the previous accounting year until 7 January
- submission of draft of Annual Summary and Management Declaration until 23 January.

6.3 Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the accounts, including an indication on the financial corrections made and reflected in the accounts as a follow-up to the results of the system audits and/or audit on operations.

In accordance with Art.29(4) of the Regulation 480/2014 the part of verifications of audit of accounts of the 5th accounting year per CP were implemented during the follow-up of system audit of the Certifying Authority in Slovenia. The audit was performed in the period from December 2018 to March 2019. In the frame of this audit CA has fully implemented 2 recommendations, while 3 recommendations remained opened⁹.

In relation to the 5th accounting year 5 interim payment applications have been submitted to the EC.

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 5 interim payment applications submitted by the CA to the EC in the 5th accounting year. The total amount of eligible expenditure declared in the final interim payment application corresponds to the cumulative amount of eligible expenditure declared in five (5) 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 the CA in Interim Payment Application have been checked by the AA (in cooperation with the AB) during the audits of operation. As described in the Chapter 5, 4 audits of operations were performed, which included 37 Partner Progress Reports.

During the final additional verifications 11 items of expenditure (CA confirmations) have been selected from 5 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 as 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 5th accounting year.

⁹ please see Chapter 4 of the present report

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 **7.189,42 €**.

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

- 3 amounts (2.009,05 €; 3.900,46 € and 509,88 €) correspond to the irregularities detected during audits of operations Expedire, Smart Production and NEKTEO
- 3 amounts (382,00 €; 166,20 € and 221,83 €) correspond to the irregularities detected during FLC on-the-spot check (ex-post certification) of operations EUfutuR, ABS – Network and MMO3D.

The AA considers the CA explanations to be adequate regarding this adjustment, contained in the column G of the Appendix 8 of the Annual Accounts.

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 (III) of the Annual Accounts no additional informations have been reported in its final version.

5 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 €)
	8.330.886,75	7.923.138,49	8.323.697,33	7.916.306,68	7.189,42	6.831,81

In January 2020 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 follow-up of 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 NCU, including administrative verifications with the description of the main results and type of errors detected by the NCU's as well as the on the spot checks performed by the Slovenian and Austrian NCU's.

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 also analysed the Managing Declaration. For this purpose the AA compared the statements declared by the MA with the results of the follow-up of system audits, the audits of operations and audit of accounts as well as the information on the results of first level controls included in the Annual Summary of Controls 2019.

Based on 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.

6.4 Indication of whether any problems identified were considered to be systemic in nature, and the measures taken.

No systemic errors were found by the AA and AB during the audit of operations and follow-up of system audits in the 5th accounting year.

7. COORDINATION BETWEEN AUDIT BODIES AND SUPERVISORY WORK BY THE AUDIT AUTHORITY

7.1 Description of the procedure for coordination between the audit authority and any audit body that carries out audits.

In May 2019 the BSO as the AA together with the AB organized the meeting of GoA, where the members of GoA were informed about the sample for audit of operations in the year 2019 and also about the conclusions from the follow-up of system audits. The AB agreed with the sample of operations for the 5th accounting year¹⁰. All audits were performed by the AA and AB (outsourced audit work) based on the common methodology for system audits and audits of operation approved by GoA for the CP and part of the Audit Strategy. Based on postponement of the implementation of 2 system audits of 2 NCUs in Austria, the Audit Strategy has been updated.

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.

7.2 Description of the procedure for supervision and quality review applied by the audit authority to such audit body(ies).

Please see explanation in the chapter above (7.1).

8. OTHER INFORMATION

8.1 Where applicable, information on reported fraud and suspicions of fraud detected in the context of the audits performed.

In the context of the audits performed by the AA (in cooperation with the AB) in the 5th accounting year, no fraud or suspicions of fraud have been detected.

8.2 Where applicable, subsequent events occurred after the submission of the accounts to the audit authority and before the transmission of the annual control report.

No events that could affect the amounts disclosed in the accounts occurred after the submission of the accounts to the audit authority and before the transmission of the annual control report and the drawing-up of the audit opinion.

Additional information about the audit work in relation to performance data reliability is, that in December 2019 the AA started specific thematic audit on performance data reliability, which in the time of preparation of this report is not finalized yet. Therefore, the results obtained from

¹⁰ 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.

this specific audit will be included in the relevant system audit report and the 6th Annual Control Report.

9. OVERALL LEVEL OF ASSURANCE

9.1 Indication of the overall level of assurance on the proper functioning of the management and control system.

In the preparation of the audit opinion for the 5th accounting year the AA took in consideration the results of the performed system audits and follow-up of system audits of the MA, CA and 3 NCU's in Slovenia and in Austria, the results of the audits of operation as well as the additional final audits of accounts performed by the AA in December 2019 - January 2020.

Based on the results obtained from the system audits and follow-up of system audits of the MA, CA and NCUs 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 only minor irregularities have been identified; upon these results the TER calculated corresponds to the **0,39%** and is below 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 **0,31%**.

Performing the additional final verifications on annual accounts no important inconsistencies have been found.

Based on these partial conclusions on audit work performed in 2019 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.

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

9.2 Assessment of any mitigating actions implemented, such as financial corrections and assessment of the need for any additional corrective measures necessary, both from a system and financial perspective.

Concerning the irregularities detected during audit work, only minor irregularities (financial corrections) have been identified, which corrective measures have been implemented by MA and CA before the final version of this report.

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 2014TC16RFCB054, CP INTERREG V-A Slovenia Austria 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>Follow-up of System audit of the Managing Authority</i>	March 2019	1	1	1	/ ¹¹	2	2	2	1						2	
CU SLO	ERDF	<i>Follow-up of System audit of the Control Unit in Slovenia</i>	March 2019	2	/ ¹²	/	2	2	1	/	/						2	
CU AT - KWF Kärntner Wirtschaftsförderungsfond	ERDF	<i>Follow-up of System audit of the Control Unit in Austria</i>	31.10. 2019	1	/ ¹³	/	1	1	/	1	/						1	
CU AT - Amt der Kärntner Landesregierung	ERDF	<i>Follow-up of System audit of the Control Unit in Austria</i>	31.10. 2019	1	/ ¹⁴	/	1	1	/	1	/						1	
CA	ERDF	<i>Follow-up of System audit of the Certifying Authority</i>	March 2019										2	2	2	2	2	

¹¹ KR 4 was not part of MA system audit

¹² KR 2, 3, 7 and 8 were not part of CU SLO system audit

¹³ KR 2, 3, 6 and 8 were not part of CU AT-KWF system audit

¹⁴ KR 2, 3, 6 and 8 were not part of CU AT-Amt. 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 (in €)	Total error rate (TER)	Corrections implemented as a result of the total error rate (in €)	Residual total error rate (RTER)	Other expenditure audited	Amount of irregular expenditure in other expenditure audited
Amount	%	% of opercov.		% of expended.									
ERDF	2014TC16RFCB054	INTERREG V-A SI AT	8.364.296,74	1.666.670,72	19,92	12,90	19,92	6.419,39	0,39%	6.419,39	0,31%	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	EXPEDIRE	SIAT74	394.988,62	AT	ICS Internationalisierungscenter Steiermark GmbH LP	124.430,55	14,52	Staff costs including 15% flat rate office and administration costs	Expenditures are not included on project cost centre	Ineligible expenditure	Random error	14,52
							0,76	Travel costs	Incorrect calculation of travel costs	Ineligible expenditure	Random error	0,76
				SI	Gospodarska zbornica Slovenije PP3	99.652,33	1.993,77	Staff costs including 15% flat rate office and administration costs	Insufficient audit trail in calculation of personell costs	Ineligible expenditure	Random error	1.993,77
EXPEDIRE - TOTAL											2.009,05	
2	NEKTEO	SIAT86	692.967,72	AT	Amt der Kärntner Landesregierung LP	139.432,15	153,75	External expertise and services	Overpaid service	Ineligible expenditure	Random error	153,75
					Magistrat der Landeshauptstadt Klagenfurt am Wörthersee PP4	198.726,42	270,00	External expertise and services	Ineligible expenditure, because service was not implemented	Ineligible expenditure	Random error	270,00
							86,13	Staff costs	Insufficient audit trail in calculation of personell costs	Ineligible expenditure	Random error	86,13
NEKTEO - TOTAL											509,88	

3	SMART PRODUCTION	SIAT45	536.312,57	SI	Pomurski tehnološki park, Murska Sobota, Slovenija LP	72.781,77	58,26	Staff costs including 15% flat rate office and administration costs	Ineligible performance bonuses in directors wage	Ineligible expenditure	Random error	58,26	
								480,00	Public Procurement	Inappropriate selection and involvement of candidates/tenders towards the contracting authority (flat rate 20%)	Ineligible expenditure	Random error	480,00
								3.360,00	Public Procurement	Involvement of candidates/tenders towards the contracting authority and involvement of unsuccessful and winning tenderer (flat rate 20%)	Ineligible expenditure	Random error	3.360,00
				AT	Fachhochschule Kärnten, gemeinnützige Privatstiftung PP7	75.269,46	2,20	Travel costs	Ineligible VAT	Ineligible expenditure	Random error	2,20	
SMART PRODUCTION - TOTAL											3.900,46		
Total irregular expenditure (in €)											6.419,39		

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

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