



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 6th accounting year
from 1 July 2019 to 30 June 2020**

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
Referat ERDF Audit Authority
Ferdinandstrasse 4
A-1010 Vienna - Austria*

1.2 Indication of the reference period.

The period from 1 July 2019 to 30 June 2020 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 2019 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 2020 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 2019 to November 2020.

In March 2020 Ms Nina Seljak has been appointed as the new Head of the Managing Authority. DMCS has been updated with institutional change of Audit Body that took place in January 2020; the Federal Ministry for Sustainability and Tourism in Austria has changed in the Federal Ministry of Agriculture, Regions and Tourism.

Based on the desk analysis of the revised version of the DMCS, considering that the new appointment in MA represents the person who was involved in the INTERREG Programmes several times before, AA concluded that the above described change of the Head of the MA has no substantial impact on the functioning of the MCS.

Regarding the institutional change of the AB in Austria, the AA, on base as referred by AB, is able to confirm that it has no substantial consequences for the Referat »ERDF Audit Authority«.

In the phase of the finalization of this report the AA received the official information from the CA about the change of the Director of the Public Fund of the Republic of Slovenia for Regional Development and Development of Rural Areas (hereinafter SRDF). The information regarding this change is contained also in the Chapter 8.

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.

The version 1.3 of the audit strategy was updated in April 2020. The common methodology chapter and long-term/mid-term audit plans were updated. No other significant changes have been made to the audit strategy for the CP from the previous version.

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.

n/a

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 has performed the planned system audit of specific thematic area - performance data reliability (finalized in July 2020).

Upon the letter of EC¹ (ACR 5th accounting year) on the open question regarding the IT system of CA, the AA decided to implement the system audit of the Certifying Authority for the Programme² earlier than the first half of the year 2021, as it was originally planned.

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 (where the above assurance is fulfilled).

¹ By its letter dated 28.4.2020, the EC issued a question concerning an open recommendation from the first system audit of the CA system relating to the electronic link between the eMS and the iCenter (CA's accounting system). The EC drew attention to the high risk of error and the possibility of a lack of audit trail due to the current mode of data transfer between the two systems (through Excel and Paper), and called on the AA to deliver an opinion on the compliance of the management and control system with Article 72 (d) of the Common Provisions Regulation, the general principle of which is computerized financial data transmission in the MCS.

² This is the second system audit of the CA in the programming period 2014-2020.

According to the rank list system audits of MA, CA, NCU in Slovenia and 2 NCUs in Austria have been planned and implemented in 2018 and follow-up of these audits have been implemented in 2019.

Considering that no substantial changes of the MCS occurred and no specific problem areas were identified during the previous audits, the implementation of the system audits of 2 (remaining) NCUs in Austria and follow up of system audits (Regionalmanagement Burgenland and Amt der Steiermärkischen Landesregierung), has been planned in the first half of 2020³.

In 2020, due to the COVID-19 epidemic, AB postponed the implementation of the system audits of 2 (remaining) NCUs⁴ in Austria in the first half of 2021.

In 2020, according to the rank list, the system audit of specific thematic area on performance data reliability has been implemented (please see chapter 4.3 of this report).

Due to the reasons described in the previous chapter, in the period November 2020 - January 2021, the system audit of the CA has been implemented (please see chapter 4.3 of this report).

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.

In the period from 1 of July 2019 until the submission of this report in accordance with the audit plan, the following system audits have been performed by AA:

- System audit of specific thematic area - performance data reliability.
- System audit of the Certifying Authority (the second system audit in the programming period 2014-2020).

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

Summary of important findings and conclusions of the system audits performed:

System audit of specific thematic area - performance data reliability

In the first half of 2020 the system audit of specific thematic on performance data reliability has been implemented by AA. The audit has been performed for all three Interreg programmes together (CP Slovenia-Austria, CP Slovenia-Hungary, CP Slovenia – Croatia) for which GODC has a role as MA and JS.

The audit was subject to verification of compliance of the management and control system at the MA / JS for the audited CPs, more specifically verifying the performance of the subsystem of the performance indicators and the accuracy of the reporting of the value of the programme

³ The postponement has been updated in Audit Strategy in 2019 (version 1.2). AB explained that 2 NCU's (Regionalmanagement Burgenland and Amt der Steiermärkischen Landesregierung) in the previous programming period worked well and that only minor deficiencies have been identified during the system audits. AB and AA agreed, 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.

⁴ In January 2021, AB started system audits of 2 NCUs: Regionalmanagement Burgenland and Amt der Steiermärkischen Landesregierung (please see chapter 8.2 of this report).

specific output indicators under the performance framework. In the context of the audit key requirements 1 to 6 were assessed.

In the frame of the audit, the consistency of the data on performance indicators in the eMS with data that were reported in Annual Implementation Reports for 2018 and 2019, was verified.

Based on testing⁵ of the data on programme and project specific output indicators for all three CPs, no significant inconsistencies have been identified in eMS and Annual Implementation Reports.

In the frame of the audit, AA also examined the evaluations⁶ carried out on the effectiveness and efficiency of all three programmes implementations in 2019 by the external contractors and employees.

No important findings and recommendations have been identified by AA during the system audit of specific thematic on performance data reliability.

Based on the audit performed, AA assessed MCS on performance data reliability in *Category 1: Works well. No. or only minor improvements needed.*

System audit of the Certifying Authority

In the period from November 2020 to January 2021 the system audit of certifying authority has been implemented by AA. The audit has been performed for all three Interreg programmes together (CP Slovenia-Austria, CP Slovenia-Hungary, CP Slovenia – Croatia) for which SRDF has a role as CA.

The audit was subject to verification of the effectiveness of MCS in the CA for the audited CPs. The audit of the system was carried out for the second time in the programming period 2014-2020. The assessment criteria for all key requirements applicable to the CA from KR 9 to KR 13 have been audited and assessed. The following finding has been identified during the audit:

<i>Finding No.1:</i> It was established that in some audited cases in CA certificates no proper audit trail on formal and accounting control in Accountancy is assured.	<i>Recommendation No.1:</i> CA should assure proper audit trail at executing all CA confirmations, taking into consideration also »four eyes principle«.
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With regard to the open recommendation regarding the IT system of CA in the previous system audit of CA, as well in order to verify the consistency of the data between the eMS and the iCenter, applied by CA, in the context of the KR 11 evaluation, the AA carried out detailed tests⁷ of data in both IT systems in the following three areas: Payments to the Lead Partners, Payments from EC (including pre-financing) and Financial irregularities - recoveries/offsettings.

⁵ The main goal of the testing was also to verify, whether the value of the programme specific output indicators reported under each project report in eMS, has basis on the actual achievements of the project.

⁶ The part of which also referred to the evaluation of the effectiveness of the achievement of the planned values in achieving the milestones of the performance framework.

⁷ The testing has been carried out for each CP on the whole population of CA confirmations/Payment Applications/ Financial irregularities, issued up to the start of the testing.

In the framework of the tests described above, the AA did not find the inconsistencies between the data included in the eMS and the data included in iCenter (accounting system of CA).

Based on the results of the audit, an assessment is made by AA, that the CA with the internal control structure established and the current data transfer between the two systems ensures the completeness of supporting evidence of incoming transfers received and payments made to the lead partners in the eMS, and the accuracy and completeness of the data and records in the eMS and the iCenter.

No other important findings have been detected during the system audit.

Based on the audit performed, AA assessed MCS in the Certifying Authority in *Category 1: Works well. No. or only minor improvements needed.*

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 the system audits.

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

Follow up of 2 system audits of the 2 National Control Units in Austria (KWF, AKL) were implemented by AB in January 2020. All open recommendations were implemented and therefore closed, which has been reported in the 5th Annual Control Report in the Chapter 4.5. No other follow-up of system audit has been performed during the period from 1st July 2019 to 31 June 2020.

During the 2nd system audit of the CA the follow up of open recommendations from previous system audit has been implemented, as follows:

KR9: Adequate separation of functions and adequate system for reporting and monitoring where the responsible authority entrust execution of tasks to another authority

<p>Finding No.1:</p> <p>During the system audit of the 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>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation.</p> <p>In the frame of the second system audit of the CA it was established, that although new member in the Supervisory Board is employee of <i>Government Office for Development and European Cohesion Policy</i>, he is not employed at <i>Cross-border Programmes Management</i></p>	

Division (Managing Authority) within ETC and Financial Mechanism Office, and therefore is not involved in MA activities.

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 eMS 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 closed, the auditee has fully implemented the recommendation (please see Chapter 4.3 of this report).</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 eMS for the preparation of accounts doesn't assure exact and proper data about public part of funding, payed to the beneficiaries.</p>	<p>Recommendation No.10:</p> <p>CA and MA should assure in IT system eMS exact and proper data about public part of funding, payed to the beneficiaries.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation.</p> <p>In the frame of the second system audit of CA, on the basis of data testing it was concluded, that IT system eMS on the level of partner progress report, project progress report, CA conformation, Application for Payment and Annual Accounts, enables exact and proper data about public part of funding, payed to the beneficiaries.</p>	

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, carried out during previous accounting years (all assessed with Category 2), and of the follow-up of system audits of 2 NCUs in Austria (both assessed with Category 1), and of the second system audit of CA (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 carried out by the Audit Body and by external auditor⁸.

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). All audit work performed by external auditors was subject to desk-review done by the AB. In this accounting year, 3 of the project partners audits out of 7, were performed by external auditors with supervision (see description above) of 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.

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 (6th 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 (6th accounting year). Please see explanation in Chapter 5.6 of this report.

⁸ Audits were outsourced to: „MAZARS Austria GmbH“; Kärntner Ring 5-7, 1010 Wien. „MAZARS Austria GmbH“ is the legal successor of the company “MSCT” that performed external audits in Austria for CP SI-AT in the previous years. The acting auditors also did not change.

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 6th accounting year, the CA declared, in the frame of CP, to the Commission the expenditure in the total amount of **9.071.046,18 €**.

The value of the population from which the random sample was drawn⁹ corresponds to **9.134.399,83 €** (hereinafter population sampled).

The AA reconciled these two amounts; the difference between the above amounts corresponds to the negative amounts 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 four (4) negative sample amounts have been identified in the total amount of **63.353,65¹⁰**. 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 9.134.399,83 € includes 58 Project Progress Reports¹¹ which correspond to 43 operations with expenditures certified in the 6th accounting year.

Considering the size of the population sampled, AA decided to use, in accordance with the Audit Strategy a non-statistical sampling and selected the sample by means of random selection method. Applying a non-statistical sampling, the sample size is calculated using professional judgment and considering 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	
	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%

⁹ Population of positive sampling units.

¹⁰ Negative amounts are related to the operations: SIAT46 Alpe Adria Karavanke/Karawanken, SIAT73 MMO3D.

¹¹ Lead Partner level.

For the 6th 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 NCU in Slovenia, carried out during previous accounting years (all assessed with Category 2), and of follow-up of 2 system audits of 2 NCUs in Austria (both assessed with Category 1), carried out by 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 6th accounting year¹².

Analysing¹³ the population, no “high value” operations were identified. Following the recommended coverage on operations, 5 (4,3) operations were randomly selected in the population of 43 operations. The selected operations are briefly described in the following table:

	Operation	Priority Axes	Certified amount in €	Audited amount in €
1.	SIAT43 FIREEXPERT	I	144.798,50	144.798,50
2.	SIAT126 Start-up AA	I	209.690,80	209.690,80
3.	SIAT109 321 go	II	334.722,39	334.722,39
4.	SIAT167 NatureGame	II	654.192,51	654.192,51
5.	SIAT284 INVOLVED	III	87.388,95	87.388,95
	Total		1.430.793,15	1.430.793,15

The size of the selected sample corresponds to 15,66% of total certified expenditure and to 11,63% of number of operations in the population for the 6th accounting year. Consequently, the size of selected sample follows the recommended coverage.

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

During the audits of operations 11 irregularities (with financial corrections) in the total amount of 3.098,15 € 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.	SIAT43 FIREEXPERT	144.798,50	49,47	49,47	0,00	0,03%
2.	SIAT126 Start-up AA	209.690,80	508,35	456,91	51,44	0,24%
3.	SIAT109 321 go	334.722,39	0,00	0,00	0,00	n/a
4.	SIAT167 NatureGame	654.192,51	2.298,00	0,00	2.298,00	0,35%
5.	SIAT284 INVOLVED	87.388,95	242,33	242,33	0,00	0,28%
		1.430.793,15	3.098,15	748,71	2.349,44	

¹² The minimum coverage in accordance with Art. 127(1) of Regulation (EU) 1303/2013 is observed.

¹³ According to calculation for high level operation, it was identified, that in the frame of population no items are above 1.826.879,96 € (9.134.399,83 € total certified amount /5 operations to be selected).

During the audit of the operation “NatureGame” (SIAT167; PP7: Podzemlje Pece) the AA detected the non-financial irregularity. In the frame of the audit it was established, that partial financing from the project, that was approved for the construction works and electrical installations for the establishment of “Geoigra”, and the share to be implemented with the project, was not properly defined in the project application form and in the construction contract¹⁴ concluded by the beneficiary with the contractor. In the case audited, the infrastructure investment, except the improper definition of the co-financing in the above documents, was finalized in accordance with the project and contract as established also during on the spot audit. Therefore, non-financial correction was applied by auditors.

Anyway, the AA recommended that in all cases where the works are not 100% financed from the project, the MA should ensure that the beneficiary specifies in the application form and then in the contract with the contractor also the part or share to be carried out with the project¹⁵ (and not only the amount) in order to assure the investment is co-financed through all its phases¹⁶. In addition it was recommended also that for all infrastructure and works contracts that are in the phase of implementation (or already concluded) within the CP Slovenia-Austria, the MA should verify if the share of project financing, in case the investment is not fully co-financed by the project, is properly defined, in order to avoid the above defined risk.

In November 2020, the MA submitted clarification to the AA, in which they described the actions taken with regard to the recommendation. MA/JS analysed all operations that include investments and constructions works in order to verify, if investments are partial or 100% financed from the project. In the next step they gathered informations from the project partners on the share of project financing in the infrastructure and works contracts. In the cases where investments had partial financing from the project and the share was not properly defined, MA called for conclusion of annexes to the contract. In addition the MA/JS informed all NCUs about the recommendation. When checking the partner reports, they should pay special attention that sources of funding of investments are properly defined in the contracts.

AA (in cooperation with AB) will verify the consistency of the above clarifications during the next audits of operations and system audits in the frame of the CP.

Additional information regarding the non-financial irregularity detected by AB during the audit of operation FIREEXPERT in the 6^h accounting year; the activities¹⁷ of the LP were not assessed to the necessary extent by the Regional Body¹⁸ and the audit trail of the assessment was not adequate. No financial repercussion has been identified by AB during the audit of operation. Regarding the before mentioned issue, AA plans to implement the system audit of MA/JS/NA¹⁹ in the first half of the year 2021, where among others the implementation of the assessment of the state-aid criteria’s regarding projects and activities²⁰ will be checked.

¹⁴ In both documents only the co-financing amount was defined.

¹⁵ Co-financing of the single investment.

¹⁶ In the case audited, the amount included in the project was “consumed” in the total amount in the frame of 7 phases of the investment (7 partly construction bills out of total of 11), the remaining phases were totally financed by own funding of beneficiary. The risk of this type of co-financing is that the investment could not be properly verified in the whole its cycle by the responsible bodies. In the case audited, it was established that this kind of risk was not realized, as the investment was in adequate manner followed by responsible bodies till its finalization.

¹⁷ FIREEXPERT-Activities concerning pilot trainings for concrete manufacturers.

¹⁸ RB – KWF; Assessment of the state aid criteria – selectivity.

¹⁹ National Authorities in Slovenia and in Austria

²⁰ Planned and on-going activities.

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 6th accounting year, which amounts to 182.688,00 €.

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

The total error rate (TER), presents **0,22%** of the amount of the certified eligible expenditure for the 6th accounting year, which corresponds to the amount of 19.779,06 €. 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 (3.098,15 €), related to the irregularities detected during the audits of operations performed in 2020, have been deducted²¹ by CA before submitting the final accounts to the Commission.

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 RTER²² has been calculated. It corresponds to **0,18%** 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 6th 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 6th 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 5^h accounting year. All financial corrections (6.419,39 €) related to the irregularities detected

²¹ Please see also in the Chapter 6.3 of this report

²² Please see the calculation of RTER in Annex 3.

during the audits of operations performed in 2019 have been deducted by CA before submitting the final accounts for 5^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 6^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:

- system audit of the CA for the CP, which has been performed by the AA in period November 2020 - January 2021;
- audits of operation with the expenditure certified in 6th accounting year in the period May-October 2020;
- additional final verifications of audits of accounts in January 2021.

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 6th accounting year per CP were implemented during the second system audit of the Certifying Authority in Slovenia. The audit was performed in the period from November 2020 to January 2021. In the frame of this audit, AA submitted one recommendation about

proper audit trail when executing CA confirmations need to be assured, while 3 recommendations that remained opened from previous Follow-up System audit have been fully implemented²³.

In relation to the 6th accounting year 4 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 4 Interim Payment Applications submitted by the CA to the EC in the 6th 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 four (4) 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, 5 audits of operations were performed, which included 29 Partner Progress Reports. During the final additional verifications 7 items of expenditure (CA confirmations) have been selected from 4 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 6th accounting year.

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 **8.365,72 €**.

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

- 4 amounts (49,47 €; 508,35 € , 2.298,00 € and 242,33 €) correspond to the irregularities detected during audits of operations FIREEXPERT, Start-up AA, NatureGame and INVOLVED.
- 2 amounts (2.817,00 € and 2.450,57 €) correspond to the irregularities detected during FLC check (ex-post certification) of operations SI-MUR-AT and Alpe Adria Karavanke.

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

²³ Please see Chapters 4.3 and 4.5 of the present report.

6 th accounting year	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 uneligible expenditure (in €)	Total amount of the corresponding public expenditure (in €)
	9.071.046,18	8.677.833,44	9.062.680,46	8.670.753,85	8.365,72	7.079,59

The AA analysed the amount of Withdrawals in the Appendix 2 of the Annual Accounts; it corresponds to the sum of the following irregularity:

- 1 amount of 1.140,00 € corresponds to the irregularity detected during FLC check of operation “Alpe Adria Karavanke/Karawanken”, and is related to 6th Accounting Year,

The amount was withdrawn within the 3rd Interim Payment Application, that is during the 6th accounting year. The AA considers the reconciliation made by the CA to be adequate concerning amounts presented in Appendix 2 and its consistency with the information in the Annual Summary.

In January 2021 the MA submitted the final version of the Management Declaration and the Annual Summary.

In the Annual Summary all the relevant findings related to 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 eMS. No inconsistency have been identified during this verifications.

The AA also analysed the Management Declaration. For this purpose the AA compared the statements declared by the MA with the results 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 2020.

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 Management 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 system audits in the 6th 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.

Due to the COVID-19 epidemic, BSO as the AA launched the written procedure via e-mail to approve the audit sample of operations and change the audit strategy together with the AB in April 2020, and therefore AA did not organize the meeting of GoA as usually in the first quarter of the year.

The AB agreed with the sample of operations for the 6th accounting year²⁴. 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 the results of the single audits the BSO as the AA for CP prepared this Annual Control Report, approved by GoA by written procedure on 5^h of February 2021.

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 6th 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.

In January 2021, in the period of preparation of this report, the official information from the CA have been received regarding the nomination of the new director of the SRDF of which part is Certifying Authority of the CP Interreg V-A Slovenia-Croatia. New director of the SRDF is from 1.1.2021 Mr. Matjaž Ribaš.

System audit of specific thematic area - withdrawals and recoveries

Additional information about the audit work in relation to thematic audits is, that in December 2020 the AA started system audit of specific thematic area on withdrawals and recoveries. In the time of preparation of this report the thematic audit on withdrawals and recoveries is not

²⁴ 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.

finalized yet. Therefore, the results obtained from this specific audit will be included in the relevant system audit report and the 7th Annual Control Report.

System audits of 2 Control Units in Austria - Amt der Steiermärkischen Landesregierung and Regionalmanagement Burgenland.

Additional information about the audit work in relation to system audits is, that in January 2020 the AB started 2 system audits of the Control Unit in Austria - Amt der Steiermärkischen Landesregierung and Regionalmanagement Burgenland. In the time of preparation of this report the abovementioned system audits are not finalized yet. Therefore, the results obtained from these system audits will be included in the relevant system audit reports and the 7th Annual Control Report.

Information about impact on Audit work due to COVID-19 epidemic

COVID-19 epidemic did not have important impact on audit work of both AA and AB in 2020, except of the postponement of two system audits of NCU in Austria (above). Audit sample approval and Audit strategy update were implemented with written procedure via e-mail. All planned on-the-spot checks regarding audit of operations (field audits) were concluded. System audit of the CA and the system audit on performance data reliability were implemented on the base of desk audit²⁵. Therefore, all audits of operations and system audits were implemented in time according to audit plan.

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 6th 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 NCU in Slovenia (all assessed with Category 2), and of the system audits and follow-up of system audits of 2 NCUs in Austria (both assessed with Category 1), and of the second system audit of CA (assessed with Category 1), and of the system audit of specific thematic area - performance data reliability (assessed with Category 1), the results of the audits of operation as well as the additional final audits of accounts performed by the AA in December 2020 - January 2021.

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, the irregularities in the total amount of 3.098,15 € have been identified; upon these results the TER calculated corresponds to the **0,22%** 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 **0,18%**.

²⁵ The examination of documentation of system audits were carried out with the help of IT system eMS.

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

Based on these partial conclusions on audit work performed in 2020 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	/ ²⁶	2	2	2	1						2	
CU SLO	ERDF	<i>Follow-up of System audit of the Control Unit in Slovenia</i>	March 2019	2	/ ²⁷	/	2	2	1	/	/						2	
CU AT - KWF ²⁸	ERDF	<i>Follow-up of System audit of the Control Unit in Austria</i>	31.10. 2019	1	/ ²⁹	/	1	1	/	1	/						1	
CU AT - AKL ³⁰	ERDF	<i>Follow-up of System audit of the Control Unit in Austria</i>	31.10. 2019	1	/ ³¹	/	1	1	/	1	/						1	
MA / JS	ERDF	<i>System audit of specific thematic area - performance data reliability</i>	July 2020	1	1	1	1	1	1	/	/						1	
CA ³²	ERDF	<i>2nd System audit of the Certifying Authority</i>	January 2021										1	2	1	1	1	1

²⁶ KR 4 was not part of MA system audit

²⁷ KR 2, 3, 7 and 8 were not part of CU SLO system audit

²⁸ Kärntner Wirtschaftsförderungsfond

²⁹ KR 2, 3, 6 and 8 were not part of CU AT-KWF system audit

³⁰ Amt der Kärntner Landesregierung

³¹ KR 2, 3, 6 and 8 were not part of CU AT-Amt. system audit

³² Second system audit of CA in the perspective 2014-2020

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 oper. covered	% of expend. covered						
ERDF	2014TC16RFCB054	INTERREG V-A SI AT	9.134.399,83	1.430.793,15	15,66	11,63	15,66	3.098,15	0,22%	3.098,15	0,18%	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	FIREEXPERT	SIAT45	144.798,50	SI	Zavod za gradbeništvo Slovenije PP3	44.547,57	49,47	Staff costs including 15% flat rate office and admin. costs	Exceeding the value of eligible staff costs	Ineligible expenditure	Random error	49,47
FIREEXPERT - TOTAL												49,47
2	INVOLVED	SIAT284	87.388,95	SI	Škofijska Karitas Celje PP3	10.644,04	242,33	Staff costs including 15% flat rate office and admin. costs	Expenditure was paid before the start of the project	Ineligible expenditure	Random error	242,33
INVOLVED - TOTAL												242,33
3	NatureGame	SIAT167	654.192,51	AT	F.S. Immobilienverwaltungs GmbH LP	13.938,00	2.200,00	External expertise and services	Ineligible VAT	Ineligible expenditure	Random error	2.200,00
							98,00	Equipment	Ineligible VAT	Ineligible expenditure	Random error	98,00
NatureGame - TOTAL												2.298,00
4	Start-up AA	SIAT127	209.690,80	AT	Lakeside Science & Technology Park GmbH LP	43.856,62	0,11	Travel costs	Incorrect calculation of travel costs	Ineligible expenditure	Random error	0,11
							0,40	Travel costs	Ineligible VAT	Ineligible expenditure	Random error	0,40

						35,09	Travel costs	Missing audit trail (invoice)	Ineligible expenditure	Random error	35,09	
						7,60	Travel costs	Incorrect exchange rate	Ineligible expenditure	Random error	7,60	
						7,50	Travel costs	Expenditure not linked to the project	Ineligible expenditure	Random error	7,50	
					Kärntner Wirtschaftsförderungsfonds PP4	55.374,00	0,74	Staff costs including 15% flat rate office and administration costs	Exceeding the value of eligible staff costs	Ineligible expenditure	Random error	0,74
			SI		Tehnološki park Ljubljana, d.o.o. PP3	47.929,56	456,91	External expertise and services	Short deadline for submitting the offer in public procurement procedure (flat rate 10%)	Ineligible expenditure	Random error	456,91
Start-up AA - TOTAL											508,35	
Total irregular expenditure (in €)											3.098,15	

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

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