



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE

BUDGET SUPERVISION OFFICE
OF THE REPUBLIC OF SLOVENIA

ANNUAL CONTROL REPORT

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

CCI No 2014TC16RFCB029

**referred to the 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:

Republic of Croatia

Agency for Audit of European Programmes Implementation System (hereinafter ARPA)

Alexandera von Humboldta 4/V

1000 Zagreb-Croatia

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 Croatia 2014 – 2020

CCI No 2014TC16RFCB029

Managing Authority (hereinafter MA):

Government Office for Development and European Cohesion Policy

ETC and Financial Mechanism Office

Cross-border Programmes Management Division

Kotnikova ulica 5

1000 Ljubljana – Slovenia

Certifying Authority (hereinafter CA):

Public Fund of the Republic of Slovenia for Regional Development and Development of Rural Areas

Škrabčev trg 9a

1310 Ribnica – Slovenia

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 Rener)
- The new appointment of the Head of the National Control Unit in Slovenia (Ms. Maja Martinšek)

In January 2019 the AA received from Croatian Partner Ministry of Regional Development and EU funds (hereinafter MRDEUF) the official information on institutional change of the Croatian NCU of the INTERREG Programmes. The modification, based on Government Conclusion of 2 August 2018 and entered into force on 1 January of 2019, include the merger of the Agency for Regional Development of the Republic of Croatia (hereinafter ARD) with the Ministry of Regional Development and EU funds. All the previous roles and responsibilities¹ of the mentioned Agency in the function of the Control Unit have been transposed to the new body. The revised version of the DMCS contains organizational changes of the Croatian NCU (Ministry is replaced with Agency throughout the document)

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 in Slovenia 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.

Regarding the institutional change of the NCU in Croatia the system audit of the NCU have been performed in December 2019 by the AB. On base of the results of the system audit we are able to confirm that the above described institutional changes have moderate impact on the functioning of the MCS of the Programme. A brief description of the findings detected during the system audit are contained in Chapter 4 of the present report.

¹ MRDEUF took over from the ARD the operations, the equipment, the archives and other documentation, funds for work, financial resources, rights and obligations of the ARD, as well as employees recruited to perform the assumed tasks.

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 1.1 of the audit strategy was updated in June 2019. Upon institutional changes of MCS in Croatia, referring to merger of ARD by the MRDEUF and consequently organizing the functions of NCU in another body, the AA and AB agreed to implement the 2nd System audit of Croatian NCU in the second half of the 2019 (and not in the 2022 as planned in the previous version of the strategy). In accordance with the proposed change of the strategy 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.

Upon the changes of the part of MCS referred to NCU in Croatia, the additional audit work has been performed, as described in the Chapter 2.1 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 system audit of Croatian NCU and 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 new risks were identified related to the authorities/bodies in the territory of Slovenia.

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, NCUs in Slovenia and Croatia have been planned and implemented.

In 2019, considering that no substantial changes of the MCS occurred (except the institutional changes of NCU in Croatia) and no specific problem areas were identified during the previous audits, the 2nd System audit of the Control Unit in Croatia² and the follow-up of system audits implemented in 2018 have been planned. Due to the fact, that no important findings and recommendations have been identified by ARPA during the 1st System audit of the Control Unit in Croatia³ in 2018, no follow-up of system audit has been planned.

As explained in the Chapter 2.1, the institutional and organisational change of the structure of NCU in Croatia, was limited to merger of ARD (as organisational unit) by the MRDEUF: The change has no impact on the internal organisation of the NCU, where the principal functions of the NCU remain the same, therefore in the frame of 2nd System audit of the Control Unit in Croatia, the specific audit objectives were focused on Key requirement 1 as follows:

- Verification of description and allocation of functions in the NCU and control system taking into account changes in the system (taking over of ARD by the MRDEUF);
- Verification of adequacy of procedures, controls and actions performed by the NCU regarding Key requirement 1.

The system audit was finalized in December 2019.

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 1st July 2018 until the submission of this report the 2nd System audit of the Control unit in Croatia has been performed by AB.

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 submitted in the relevant system audit report and included in the 6th Annual Control Report.

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

System audit of the MCS of the National Control Unit in Croatia (MRDEUF)

² Referred to the System audit of Control Unit within Ministry of regional Development and EU Funds of the Republic of Croatia

³ Referred to the System audit of Control Unit within Agency for Regional Development of the Republic of Croatia.

KR1: Adequate separation of functions and adequate system for reporting and monitoring in cases where the responsible authority entrust execution of task to another body

AC 1.1 – A clear description and allocation of functions within the MRDEUF

<p>Finding No.1:</p> <p>Update of organizational structure and allocation of function of the NCU within MRDEUF in Croatia is not finalized.</p>	<p>Recommendation No.1:</p> <p>Existence of organizational structure of the NCU in Croatia and allocation of function within the MRDEUF is the key requirement of the CP Interreg V-A Slovenia-Croatia. For that purpose, it is recommended that the update of organizational structure of the NCU in Croatia and adequate allocation of function within the Ministry is finalized.</p>
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AC 1.2 – Necessary staff and expertise exist at the different levels and for the different functions within the NCU

<p>Finding No.2:</p> <p>ARD employees that have been taken over, covering the function of the NCU in Croatia, have not been officially appointed within the Ministry due to the fact, that job posts they perform have not been envisaged by the MRDEUF organizational structure.</p>	<p>Recommendation No.2:</p> <p>It is recommended the appointment of adequate staff within the MRDEUF ensuring the proper functioning of the NCU in Croatia</p>
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AC 1.3 – Separation of functions within MRDEUF

<p>Finding No.3:</p> <p>The compliance with the principle of separation of functions within authorities/bodies of MCS has not been ensured since organizational structure and allocation of functions of NCU in Croatia have not been established within organizational structure of MRDEUF.</p>	<p>Recommendation No.3:</p> <p>It is recommended to set up clear description and allocation on functions of NCU in Croatia for the CP Interreg V-A Slovenia-Croatia which have been changed as of 1 January 2019. The functions to be allocated within the NCU and MRDEUF should comply with the principle of separation of functions within authorities/bodies of MCS.</p>
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AC 1.4 – Complete and adequate procedures and manuals exist and are updated

<p>Finding No.4:</p> <p>Update of the NCUs Manual of Procedures for the CP Interreg V-A Slovenia-Croatia has not been done from 1 January 2019 until the finalization of system audit in December 2019.</p>	<p>Recommendation No.4:</p> <p>It is recommended to prescribe NCUs procedures for the CP Interreg V-A Slovenia-Croatia updated in accordance with the relevant organizational changes.</p>
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<p>Controllers who have been taken over by MRDEUF from ARD continued to carry out the tasks in accordance with the last officially expired version of the NCUs Manual of Procedures.</p>	
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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 audit.

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:

- 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 system and 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:</p> <p>During the system audit of CA, it was established that the composition of the Supervisory Board of the Slovenian Regional Development fund (CA) and its area of the functions doesn't assure total independence of CA.</p>	<p>Recommendation No.1:</p> <p>It was recommended that the Slovenian Regional Development fund, under which responsibility is also the CA, assure (through formal changes or changes in human resources in the Supervisory Board) the independent position of CA.</p>
<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

Finding No.2: It was established that in some audited cases in "CA certificates" no proper audit trail on formal and accounting control in Accountancy is assured.	Recommendation No.2: CA should assure proper audit trail in the phase of confirmation of "CA certificates", taking into consideration also »four eyes principle«.
Implementation of the recommendation: The recommendation is closed, the auditee has fully implemented the recommendation.	

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

Finding No.5: 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.	Recommendation No.5: CA and MA should prepare action plan which will in long-term period assure interconnection between two IT systems.
Implementation of the recommendation: 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 is economically too 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 5 th 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.	

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

Finding No.7: 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.	Recommendation No.7: 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.
Implementation of the recommendation: The recommendation is closed, the auditee has fully implemented the recommendation.	

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

<p>Finding No.9:</p> <p>IT system e-MS for the preparation of accounts doesn't assure exact and proper data about public part of founding, payed to the beneficiaries.</p>	<p>Recommendation No.9:</p> <p>CA and MA should assure in IT system e-MS exact and proper data about public part of founding, payed to the beneficiaries.</p>
<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>During the system audit it was established, that in the first two deadlines of Open Call for Proposal, the applications that fully comply with the administrative and eligibility criteria, were relatively low regarding the number of applications submitted by applicants.</p>	<p>Recommendation No.1:</p> <p>MA should in the next deadlines of Open Call for Proposals assure, that applicants could submit the supplements referred to the compliance with the administrative criterion, to assure more equal assessment of applications as well as more widely number of them for further selection.</p>
<p>Implementation of the recommendation:</p> <p>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>Among the audited project reports it was detected that the NCU certified the higher amount of expenditure as to declared by the beneficiary.</p>	<p>Recommendation No.3:</p> <p>NCU (in cooperation with MA) should assure that only the amount of expenditure declared by beneficiaries can be include in the “FLC certificate”. The eventual additional eligible expenditure (established during the first level control) should be declared by beneficiaries (and be subject of first level control) in the frame of the next project report. In accordance with this we recommend also to complete the procedure of the first level control.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation.</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 control list (the number of project report and the date of confirmation).</p>
<p>Implementation of the recommendation:</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:</p> <p>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:</p> <p>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>
<p>Implementation of the recommendation:</p> <p>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</p>	

<p>risk is on-going process during the implementation of the OP, the recommendation remains open.</p>	
<p>Finding No.9:</p> <p>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.</p>	<p>Recommendation No.9:</p> <p>MA and NCU should assure the application of ARACHNE also in the frame of implementation of first level controls.</p>
<p>Implementation of the recommendation:</p> <p>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.</p>	
<p>Finding No.10:</p> <p>It was established during the system audit that employees have not enough trainings on anti-fraud measures.</p>	<p>Recommendation No.10:</p> <p>MA should plan and realize more trainings of the employees on anti-fraud measures.</p>
<p>Implementation of the recommendation:</p> <p>The auditee has partially implemented the recommendation, the recommendation is still open.</p>	

Follow-up of System audit of the MCS of the National 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

<p>Finding No.2:</p> <p>Partner progress reports and their expenditure for the Technical Assistance/Beneficiary NA/NCU are being controlled by the controller of the NCU.</p>	<p>Recommendation No.2:</p> <p>NCU should together with the MA put in place adequate procedures and arrangements to assure separation of duties of management verifications and Beneficiary.</p>
<p>Implementation of the recommendation:</p> <p>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.</p>	

KR4: Adequate management verifications

<p>Finding No.4:</p> <p>1. On the „FLC certificates“ there is no evidence who did the supervision of the controller.</p> <p>2. In the „FLC certificates“ and „FLC reports“ not all data entry fields are filled in.</p>	<p>Recommendation No.4:</p> <p>1. NCU should respect the four-eye principle when executing the controls.</p> <p>2. Controllers should in the „FLC certificates“ and „FLC reports“ fill all data entry fields.</p>
<p>Implementation of the recommendation:</p> <p>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.</p>	
<p>Finding No.5:</p> <p>Methodology for sampling operations for on-the-spot verifications is prepared and used, but the sampling not apply all the requirements of art. 125(5) of Regulation EU No.1303/2013.</p>	<p>Recommendation No.5:</p> <p>NCU should align its methodology with all the requirements of art. 125(5).</p>
<p>Implementation of the recommendation:</p> <p>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.</p>	
<p>Finding No.7:</p> <p>NCU doesn't have an adequate evidence of on-the-spot verifications in e-MS.</p>	<p>Recommendation No.7:</p> <p>NCU should provide in e-MS missing information in regard of the on-the-spot verifications.</p>
<p>Implementation of the recommendation:</p> <p>The recommendation is closed, the auditee has fully implemented the recommendation.</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 system audits and the follow-up of system audits of MA, CA and NCU in Slovenia (all assessed with Category 2) and of system audit of NCU in Croatia (assessed with Category 2) 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 for the CP were carried out by the BSO (in Slovenia) and by the ARPA (AB in Croatia). According to Rules of Procedure of the Group of Auditors, each body 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 (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 **8.315.953,57 €**.

The value of the population from which the random sample was drawn⁴ corresponds to **8.334.993,28 €** (hereinafter population sampled).

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

⁴ Population without negative amount.

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 eight (8) negative sample amounts have been identified in the total amount of **19.039,71⁵**. They were excluded from the population and were 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 8.334.993,28 € includes 50 Project Progress Reports⁶ which corresponds to 24 operations with expenditures certified in the 5th accounting year.

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	
	on operations	on expenditure declared
Works well. No or only minor improvements needed.	5%	10%
Works. Some improvements are needed.	5%-10%	10%
Works partially. Substantial improvements needed.	10%-15%	10%-20%
Essentially does not work.	15%-20%	10%-20%

For the 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 Croatia (1), carried out by the AA and AB, in Category 2 "System works, but some improvements are needed".

The Category 2, according to the Methodology included in the Audit Strategy, corresponds to average level of assurance gained from the system, which in terms of the % of population represents, 10% of operations and in terms of expenditure declared 10% of amount of expenditure declared in the 5th accounting year⁷.

⁵ Negative amounts are related to the operation SLO-HR191 TA AA/AB.

⁶ Lead Partner level.

⁷ The minimum coverage in accordance with Art. 127(1) of Regulation (EU) 1303/2013 is observed.

Following the recommended coverage, the sample was selected in following steps, as follows:

- In first step no “high value”⁸ operations have been identified, however 2 operations with the total certified amount significantly above the average amount “Mala Barka 2” and “FRISCO 1” with the respective amounts of certified expenditure: 1.166.034,67 € and 1.092.906,92 €, have been identified. Analysing the mentioned operations⁹, it was established that both have been already selected in 2018 (4th accounting year). As no important findings have been detected during the audits and considering that the operation “Mala Barka 2” has been audited only in the smaller amount of 45.335,97 €, the AA, taking into account all of these circumstances and on the base of the professional judgement, selected in this first phase the operation “**Mala Barka 2**”.
- In the second step 2 operations from the remaining part of population have been randomly selected (Claustra +; STAR).

The selected operations are briefly described in the following table:

	Operation	Priority Axes	Certified amount in €	Audited amount in €
1.	SLO-HR49 MALA BARKA 2	II	1.166.034,67	1.166.034,67
2.	SLO-HR78 CLAUSTRA+	II	409.444,43	409.444,43
3.	SLO-HR171 STAR	III	512.839,13	512.839,13
	Total		2.088.318,23	2.088.318,23

The size of the selected sample corresponds to 25,05% of total certified expenditure and to 12,50% of number of operations in population for the 5th 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 2 irregularities in the total amount of 33,60 € were detected. The following table presents the basic data in relation to the amount of irregularities detected per operation by the single audit authority and the % of error rate calculated on the level of operation:

	Acronym of operation	Sample/Certified amount (in €)	Total amount of irregularities (in €)	The amount of irreg. (in €) detected by the BSO (Slovenia)	The amount of irreg. (in €) detected by the ARPA (Croatia)	The error rate / audited amount per operation (in %)
1.	SLO-HR49 MALA BARKA 2	1.166.034,67	33,60	33,60	0,00	0,003%
2.	SLO-HR78 CLAUSTRA+	409.444,43	0,00	0,00	0,00	0,00%
3.	SLO-HR171 STAR	512.839,13	0,00	0,00	0,00	0,00%
	Total	2.088.318,23	33,60	33,60	0,00	

⁸ The high-value operation: the operation where the total amount of certified expenditure in the 5th accounting year is higher than 2.778.331,09 € (8.334.993,26 € total certified amount /3 operations to be selected).

⁹ Analysing the population sampled, it was identified that each of two operations with significantly above the average certified amount, represent appr.13% of total certified expenditure of the population (“Mala Barka 2” 1.166.034,67 €; “FRISCO 1” 1.092.906,92 €), while the remaining operations were certified on average just under appr. 300.000,00 €.

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 the present report.

The materiality threshold is determined at 2% from the certified eligible expenditure for the 5th accounting period, which amounts to 166.699,87 €.

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

The total error rate (TER) presents **0,0004%** of the amount of the certified eligible expenditure for the 5th accounting period, which corresponds to the amount of 33,60 €. 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 (33,60 €), related to the irregularities detected during the audits of operations performed in 2019, have been deducted¹⁰ 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 RTER¹¹ has been calculated. It corresponds to **0%** 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.

All financial corrections (59.492,26 €) 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.

¹⁰ Please see also in the Chapter 6.3 of this report

¹¹ Please see the calculation of RTER in Annex 3.

Additional information regarding the irregularity¹² detected by AA during the audit of operation DETOX in the 4th accounting year: AA estimated the existence of potential risk of the presence of the same type of the irregularity also in other operations approved in the frame of the CP, therefore AA in January 2019 addressed to the MA the letter, where the additional actions as well the adequate action plan were requested¹³, in order to avoid the risk of presence of similar type of irregularities also in other operations.

According to the action plan, MA in cooperation with Joint Secretariat (hereinafter JS) identified the potential risky operations, which included the investments in the private ownership; in this frame the list of the 9 operations (12 project partners) were defined by the MA. According to this list, JS planned additional on the spot checks (site visits), to verify if potential similar type of irregularity exists. Until the submission of this report 10 site visits have been implemented. The site visits for remaining investments identified, are planned, in accordance with the time of implementation of the single investment plans, in the period until November 2020. Analysing the reports of implemented additional site visits performed by the MA/JS, no similar irregularities have been identified.

Regarding the results of additional verifications performed by MA in relation to the type of the irregularity detected, the AA and AB agreed that special attention should be put on this area of potential irregularities also in the next audits of operation. With this scope, the check list on the eligibility of expenditure has been supplemented properly by the AA. During the audit of operations in 5th accounting year no similar irregularities have been identified.

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 5th accounting period 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.

¹² In the frame of the audit was established that the recipient of part of the funds (investments) is not the final beneficiary (PP7) Municipality Sveta Ana, but the owner of the house (homestead) on which the restoration work (co-financed from CP) was done. The beneficiary and the owner have agreed the long-term lease contract, in which “inter alia” the owner had the rights to use the house without any limitation and to rent the house to third persons for his own business.

¹³ Please see the explanation in detail in the 4th ACR

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;
- 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 opened¹⁴.

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 the 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 the 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 CA in Interim Payment Application have been checked by the AA (in cooperation with the AB) during the audits of operation. As described in Chapter 5.6, 3 audits of operations were performed, which included 55 Partner Progress Reports.

During the final additional verifications 17 items of expenditure (CA confirmations) have been selected from 5 interim payment applications, with the purpose to verify their existence in the

¹⁴ please see Chapter 4 of the present report

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.

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 **1.650,53 €**.

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

- the amount of 33,60 € corresponds to the irregularities detected during audit of operation “Mala Barka 2”,
- the amount of 1.616,93 € corresponds to the irregularity detected during FLC check (ex-post certification) of operation “MISTERION”.

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.

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 €)
	8.315.953,57	8.149.553,14	8.314.303,04	8.147.902,61	1.650,53	1.650,53

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

- 3 amounts (959,53 €) corresponds to the irregularities detected during FLC check of operation “STAR” and are related to 5th Accounting Year,
- 1 amount of 0,55 € corresponds to the irregularity detected during FLC check of operation “DETOX” and is related to 4th Accounting Year.

All above amounts were withdrawn within the 5th Interim Payment Application, that is during the 5th 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 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, system audit of NCU in Croatia 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 the on the spot checks performed by the Slovenian and Croatian 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, system audit 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 year¹⁵. All audits were performed by the AA and AB 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 organizational changes of the NCU in Croatia, 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).

¹⁵ 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.

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 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 2 NCU's in Slovenia and in Croatia, 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 NCU 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 **0,0004%**, and it 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%**.

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, on 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 2014TC16RFCB029, CP INTERREG V-A Slovenia Croatia 2014 – 2020]													Overall assessment (category 1, 2, 3, 4) [as defined in Table 2- Annex IV of Regulation (EU) No 480/2014]	Comments
				Key requirements (as applicable) [as defined in Table 1- Annex IV of Regulation (EU) No 480/2014]														
				KR 1	KR 2	KR 3	KR 4	KR 5	KR 6	KR 7	KR 8	KR 9	KR 10	KR 11	KR 12	KR 13		
MA	ERDF	<i>Follow-up of System audit of the Managing Authority</i>	March 2019	1	1	1	/ ¹⁶	2	2	2	1						2	
CU SLO	ERDF	<i>Follow-up of System audit of the Control Unit in Slovenia</i>	March 2019	2	/ ¹⁷	/	2	2	1	/	/						2	
CU CRO	ERDF	<i>System audit of the Control Unit in Croatia</i>	December 2019	2 ¹⁸	/	/	1	1	1	/	/						2	Overall assessment after 2 nd System audit of the Control Unit in Croatia
CA	ERDF	<i>Follow-up of System audit of the Certifying Authority</i>	March 2019									2	2	2	2	2	2	

¹⁶ KR 4 was not part of MA system audit

¹⁷ KR 2, 3, 7 and 8 were not part of CU SLO system audit

¹⁸ Assessment of KR 1 was part of 2nd System audit; Assessment of KR 4, 5 and 6 were part of 1st 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 oper. covered	% of expend. covered						
ERDF	No 2014TC16R FCB029	INTERREG V-A SI HR	8.334.993,26	2.088.318,23	25,05	12,50	25,05	33,60	0,0004%	33,60	0%	n/A	n/A

ANNEX 4 (B) - "TABLE OF IRREGULARITIES"

Nr	Acronym	Project ID	Audited amount per operation (in €)	Country	Partners name (LP/PP)	Audited Expenditure per PP (in €)	Irregular expenditure	Area of errors	Description of irregularity	Type of irregularity	Type of error (random, systematic anomaly)	Financial correction proposed
1	Mala barka 2	SI-HR49	1.166.034,67	SI	Občina Piran PP7	258.056,43	9,60	Travel and accomodation	Incorrect calculation of travel costs	Ineligible expenditure	Random error	9,60
							24,00	Travel and accomodation	Incorrect calculation of travel costs	Ineligible expenditure	Random error	24,00
Mala barka 2 - TOTAL											33,60	
Total irregular expenditure (in €)											33,60	

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

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