



REPUBLIC OF SLOVENIA  
**MINISTRY OF FINANCE**

BUDGET SUPERVISION OFFICE  
OF THE REPUBLIC OF SLOVENIA

# ANNUAL CONTROL REPORT

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

**CCI No 2014TC16RF053**

**referred to the 6<sup>th</sup> accounting year  
from 1 July 2019 to 30 June 2020**

**Final Version**



**No.: 0621-1/2016/16**

**Ljubljana, February 2021**

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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:*

*Directorate General for Audit of European Funds (hereinafter DGAEF)*

*Bartók Béla út 105-113*

*1115 Budapest - Hungary*

### **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 - Hungary 2014 – 2020*

*CCI No 2014TC16RFCB053*

*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.

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.

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 this 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 EC (ACR 5<sup>th</sup> accounting year) on the open question regarding the IT system of CA<sup>1</sup>, the AA decided to implement the system audit of the Certifying Authority for the Programme<sup>2</sup> 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).

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

In 2020, considering that no substantial changes of the MCS occurred and no specific problem areas were identified during the previous audits, 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).

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<sup>1</sup> By its letter<sup>1</sup> 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.

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

### **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 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 testing<sup>3</sup> 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 evaluations<sup>4</sup> carried out on the effectiveness and efficiency of all three programmes implementations in 2019, by the external contractors and employees. One minor finding regarding the evaluation has been identified by the AA.

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

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<sup>3</sup> 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.

<sup>4</sup> 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.

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:

<b><i>Finding No.1:</i></b> It was established that in some audited cases in CA certificates no proper audit trail on formal and accounting control in Accountancy is assured.	<b><i>Recommendation No.1:</i></b> 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 tests<sup>5</sup> 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.

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 system audits.

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

Follow up of system audit of the Control Department, West-Hungarian Control Unit (i.e. National Control Unit) in Hungary was implemented by AB in December 2019. All open recommendations were implemented and therefore closed, which has been reported in the 5<sup>th</sup>

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<sup>5</sup> 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.

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.

**Information on the open recommendations from follow-up of system audits from previous accounting years.**

During the 2<sup>nd</sup> system audit of the CA the follow up of open recommendations from previous system audit have 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><b>Finding No.1:</b></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><b>Recommendation No.1:</b></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><b>Implementation of the recommendation:</b></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 Division (Managing Authority) within ETC and Financial Mechanism Office</i>, and therefore is not involved in MA activities.</p>	

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

<p><b>Finding No.6:</b></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><b>Recommendation No.6:</b></p> <p>CA and MA should prepare action plan, which will in long-term period assure interconnection between two IT systems.</p>
<p><b>Implementation of the recommendation:</b></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**

<b>Finding No.10:</b> IT system eMS for the preparation of accounts doesn't assure exact and proper data about public part of funding, payed to the beneficiaries.	<b>Recommendation No.10:</b> CA and MA should assure in IT system eMS exact and proper data about public part of funding, payed to the beneficiaries.
<b>Implementation of the recommendation:</b> The recommendation is closed, the auditee has fully implemented the recommendation. 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.	

**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, carried out during previous accounting years (all assessed with Category 2), and of the follow-up of system audit of NCU in Hungary (assessed with Category 2), 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. AUDITS 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 DGAEF (AB in Hungary). 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 (6<sup>th</sup> 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 (6<sup>th</sup> 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 6<sup>th</sup> accounting year, the CA declared, in the frame of the CP, to the Commission the expenditure in the total amount of **4.636.319,10 €**.

The value of the population from which the random sample was drawn corresponds to **4.636.319,10 €** (hereinafter population sampled).

The values of population sampled, and the total amount of expenditure declared to CP are the same, because there are no negative sampling units.

**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.**

No negative sampling units in population sampled for 6<sup>th</sup> accounting year have been identified.

**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 4.636.319,10 € includes 47 Project Progress Reports<sup>6</sup> which corresponds to 25 operations with expenditures certified in the 6<sup>th</sup> 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.

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<sup>6</sup> Lead Partner level.

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 6<sup>th</sup> 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 (all assessed with Category 2) in Slovenia and in Hungary, carried out during previous accounting years 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 10% of operations, and in terms of expenditure declared 10% of amount of expenditure declared in the 6<sup>th</sup> accounting year<sup>7</sup>.

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

- analysing the population 2 operations with the total certified amount significantly above the average amount “Guide2Visit” and “IronCurtainCycling” with the respective amount of certified expenditure: 866.660,72 €, and 789.486,47 €, have been identified.<sup>8</sup> Analysing the mentioned operation<sup>9</sup>, as well the remaining population, the AA on base of the professional judgement selected in this first phase the operation “**SIHU101 Guide2Visit**”.
- In the second step 3 operations from the remaining part of population have been randomly selected (Folk Music Heritage; Green Line; TA4 – SI NA/FLC).

The selected operations are briefly described in the following table:

	Operation	Priority Axes	Certified amount in €	Audited amount in €
1.	SIHU101 Guide2Visit	I	866.660,72	866.660,72
2.	SIHU156 Folk Music Heritage	II	69.736,15	69.736,15
3.	SIHU200 Green Line	II	112.990,92	112.990,92
4.	SIHU88 TA4 – SI NA/FLC	III	87.780,72	87.780,72
	<b>Total</b>		<b>1.137.168,51</b>	<b>1.137.168,51</b>

The size of the selected sample corresponds to 24,53 % of total certified expenditure in 6<sup>th</sup> accounting year and 16 % of the total number of operations. Consequently, the size of selected sample follows the recommended coverage.

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

<sup>8</sup> Neither of both operations are identified as high value operations - above 1.545.439,70 € (4.636.319,10 € total certified amount /3 operations to be selected).

<sup>9</sup> The AA analysed the population and found that two operations with significantly above the average certified amount, represent appr. 17% of total certified expenditure of the population (“Guide2Visit” 886.660,72 €; “IronCurtainCycling” 789.486,47 €), while the remaining operations were certified on average just under appr. 200.000 €. Operation “IronCurtainCycling” has been selected and audited in 5<sup>th</sup> accounting year.

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

During the audits of operations 2 irregularities (with financial corrections) in the total amount of 655,26 € were detected. The following table presents the basic data in relation to the amount of irregularities detected per operation by the single audit authority and the % of error rate calculated on the level of operation:

	Acronym of operation	Sample/Certified amount (in €)	Total amount of irregularities (in €)	The amount of irreg. (in €) detected by the BSO (Slovenia)	The amount of irreg. (in €) detected by the DGAEF (Hungary)	The error rate / audited amount per operation (in %)
1.	SIHU101 Guide2Visit	866.660,72	642,24	0,00	642,24	0,07 %
2.	SIHU156 Folk Music Heritage	69.736,15	0,00	0,00	0,00	n/a
3.	SIHU200 Green Line	112.990,92	0,00	0,00	0,00	n/a
4.	SIHU88 TA4 – SI NA/FLC	87.780,72	13,02	13,02	0,00	0,01 %
	<b>Total</b>	<b>1.137.168,51</b>	<b>655,26</b>	<b>13,02</b>	<b>642,24</b>	

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 6<sup>th</sup> accounting year, which amounts to 92.726,38 €.

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

The total error rate (TER) (calculated with this method) presents **0,0178%** of the amount of the certified eligible expenditure for the 6<sup>th</sup> accounting year, which corresponds to the amount of 823,68 €. 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 (655,26 €), related to the irregularities detected during the audits of operations performed in 2020, have been deducted<sup>10</sup> by CA before submitting the accounts to the Commission.

<sup>10</sup> Please see also in the Chapter 6.3 of this report.

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

As the corrective measures have been taken before the finalization of the ACR, the RTER has been calculated. It corresponds to **0,004%**<sup>11</sup> 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 6<sup>th</sup> 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 6<sup>th</sup> 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<sup>th</sup> accounting year. All financial corrections (71.180,97 €) related to the irregularities detected during the audits of operations performed in 2019 have been deducted by CA before submitting the final accounts for 5<sup>th</sup> accounting year to the Commission.

Additional information regarding the irregularity<sup>12</sup> detected by AA during the audit of operation “IronCurtainCycling” in the 5<sup>th</sup> 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 MA in February 2020 submitted the additional clarification to the AA, in which they described the action plan<sup>13</sup> and actions taken to avoid the risk of presence of similar type of irregularities also in other operations approved in the frame of the CP.

According to the action plan, MA in cooperation with Joint Secretariat identified the potential risky operations, which included the investments in purchase of property and constructions works; in this frame the list of the 10 operations<sup>14</sup> was defined by the MA. According to identified risky operations, the list of realized/planned on-the-spot checks (site-visits) was subitted by MA/JS. On-the-spot checks have been implemented by the JS for all the above identified operations except one, where investments have already been concluded in the period until December 2020. The site visits for remaining investment identified is planned, in accordance with the time of implementation of the single investment plan, in March 2021.

According to the reports of implemented site visits performed by the MA/JS, no similar irregularities have been identified.

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<sup>11</sup> Please see the calculation of RTER in Annex 3.

<sup>12</sup> In the frame of the audit it was established that the auditee (PP6: Municipality Lendava) purchased the property/land, for the purpose of constructing a “glamping centre” and arranging a space for tenting. Besides this an integral part of the property represents a residential property (house). Analysing the results and objectives of the project, defined by the auditee in the application form, it was established that the purchase of the house is not in a direct link with analysed objectives of the project.

<sup>13</sup> Please see the explanation in detail in the 5<sup>th</sup> ACR, Chapter 5.7;

<sup>14</sup> From which only 1 operation has planned activities for purchase of property/real estate.

During the audit of operations in 6<sup>th</sup> 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 6<sup>th</sup> 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 6<sup>th</sup> 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 implemented in accordance with the timesheet defined in the Partnership agreement between MA, CA and AA for the Interreg V-A Slovenia-Austria, Slovenia-Croatia and Slovenia-Hungary for the programming period 2014-2020, where the following steps have been defined:

- submission of first draft of Annual accounts for the previous accounting year 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 6<sup>th</sup> 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 implemented<sup>15</sup>.

In relation to the 6<sup>th</sup> accounting year 6 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 6 Interim Payment Applications submitted by the CA to the EC in the 6<sup>th</sup> 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 6 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 5.6, 4 audits of operations were performed, which included 25 Partner Progress Reports.

During the final additional verifications 13 items of expenditure (CA confirmations) have been selected from 6 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 6<sup>th</sup> 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 **655,26 €**.

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

- the amount of 642,24 € corresponds to the irregularities detected during audit of operation "Guide2Visit" and,
- the amount of 13,02 € corresponds to the irregularities detected during audit of operation "TA4 – SI NA/FLC".

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

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<sup>15</sup> please see Chapters 4.3 and 4.5 of the present report.

6 <sup>th</sup> 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 €)
	4.636.319,10	4.510.933,77	4.635.663,84	4.510.278,51	655,26	655,26

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 the system audits and audits of operations are included. The MA analysed them and briefly described the corrective measures, realised or to be realised in the future.

In the second part the MA reported on the work of the NCUs, including administrative verifications with the description of the main results and type of errors detected by the NCUs as well as the on the spot checks performed by the Slovenian and Hungarian NCUs.

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 the 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, system audit and follow-up of system audits in the 6<sup>th</sup> 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 DGAEF as 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 6<sup>th</sup> accounting year<sup>16</sup>. 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 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 2<sup>nd</sup> 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 6<sup>th</sup> 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-Hungary. 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

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<sup>16</sup> 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 7<sup>th</sup> 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. 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 audit<sup>17</sup>. 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 6<sup>th</sup> accounting year the AA took in consideration the results of the performed system audits and follow-up of system audits of the MA and 2 NCUs in Slovenia and in Hungary carried out during previous accounting years (all assessed with Category 2), and of the 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 operations 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 655,26 € have been identified; upon these results, the TER calculated corresponds to the **0,0178%** of the amount of the certified eligible expenditure for the 6<sup>th</sup> accounting year, 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 **0,004%**.

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 AA in cooperation with the 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.*

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<sup>17</sup> The examination of documentation of system audits were carried out with the help of IT system eMS.

**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 random 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 2014TC16RFCB053, CP INTERREG V-A Slovenia Hungary 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	/ <sup>18</sup>	2	2	2	1						2	
CU SLO	ERDF	<i>Follow-up of System audit of the Control Unit in Slovenia</i>	March 2019	2	/ <sup>19</sup>	/	2	2	1	/	/						2	
CU HU	ERDF	<i>Follow-up of System audit of the Control Unit in Hungary</i>	December 2019	1	/ <sup>20</sup>	/	2	2	1	/	/						2	
MA / JS	ERDF	<i>System audit of specific thematic area - performance data reliability</i>	July 2020	1	1	1	1	1	1	/	/						1	
CA <sup>21</sup>	ERDF	<i>2<sup>nd</sup> System audit of the Certifying Authority</i>	January 2021									1	2	1	1	1	1	

Note: The parts in grey in the table above refer to key requirements that are not applicable to audited entity.

<sup>18</sup> KR 4 was not part of MA system audit (CU system audit separately).

<sup>19</sup> KR 2, 3, 7 and 8 were not part of CU SLO system audit.

<sup>20</sup> KR 2, 3, 7 and 8 were not part of CU HU system audit.

<sup>21</sup> 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 irregular expenditure in random sample (in €)	Total error rate (TER)	Corrections implemented as a result of the total error rate (in €)	Residual total error rate (RTER)	Other expenditure audited	Amount of irregular expenditure in other expenditure audited
	Amount	%	% of oper.. covered	% of expend. covered									
ERDF	<b>2014TC16 RFCB053</b>	INTERREG V-A SI HU	4.636.319,10	1.137.168,51	24,53	16,00	24,53	655,26	0,018%	655,26	0,004%	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	Guide2Visit	SIHU101	866.660,72	HU	Zala Megyei Önkormányzat PP2	23.811,09	642,24	External services	Only 1/3 of invoice for external service related to the project.	Ineligible expenditure	Random error	642,24
<b>Guide2Visit - TOTAL</b>												<b>642,24</b>
2	TA 4 - SI NA/FLC	SIHU88	87.780,72	SI	Helikon Kastélymúzeum Közhasznú Nonprofit Kft. PP4	87.780,72	13,02	Travel and accomodation	Overpaid travel costs.	Ineligible expenditure	Random error	13,02
<b>TA 4 - SI NA/FLC -TOTAL</b>												<b>13,02</b>
<b>Total irregular expenditure (in €)</b>												<b>655,26</b>

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

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