



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE
BUDGET SUPERVISION OFFICE



4TH ANNUAL AUDIT REPORT

FOR IMPLEMENTATION OF
NORWEGIAN FINANCIAL MECHANISM AND
EUROPEAN ECONOMIC AREA FINANCIAL MECHANISM
FOR THE PERIOD 2014 - 2021

JANUARY 2022

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1. INTRODUCTION

1.1 *Reference period – accounting year*

In the reference period from **1st July 2020 to 30 June 2021** the expenditure incurred in this period for managing programmes “Education, Scholarships, Apprenticeship and Youth Entrepreneurship” and “Climate Change Mitigation and Adaptation”, and expenditure for “Technical assistance” and “Bilateral Fund” activities were declared to the donors by several Intermediate Financial Reports (hereinafter: **IFR**).

1.2 *Reference to the version of the audit strategy applicable*

The audit strategy is in version 2 (January 2021).

1.3 *Audit period (during which the audit work took place)*

The Annual Audit Report describes the Audit Authority’s work done in the year 2021:

- in January the version 2 of the audit strategy was adopted, and the 3rd Annual Audit Report was issued,
- on 17 March the (non-statistical) sample of project’s reports was selected,
- from April to the end of September the Audit Authority executed 5 audits of projects,
- on 15 September the audit of expenditure of “Technical assistance for the Audit Authority” was due to the request of the Financial Mechanisms Office selected (and executed by another organizational unit in the Audit Authority that was not involved in the expenditure),
- on 14 December the system audit of Programme Operators and National Focal Point started.

1.4 *Identification of the programme(s) covered by the report and of its/their PO(s)*

The report covers the following programme(s)¹:

- EDUCATION, Scholarships, Apprenticeship and Youth Entrepreneurship,
- CLIMATE Change Mitigation and Adaptation.

The report covers also the following **other allocations**²:

- Technical assistance to the Beneficiary State and
- Fund for Bilateral relations.

The report covers the following programme operators (hereinafter: **PO**):

- Financial Mechanisms Division within the European Territorial Cooperation and Financial Mechanisms Office, within Government Office for Development and European Cohesion Policy (hereinafter: **FMD**),
- from 1st October 2021 the FMD is reorganized in European Territorial Cooperation and Financial Mechanisms Section within the European Territorial Cooperation and Financial Mechanisms division, within Government Office for Development and European Cohesion Policy (see also point 2 Significant changes in Management and Control System).

¹ the Financial Mechanisms Committee and National Financial Point signed by on 18 December 2019 the Programme Agreements for “Climate change mitigation and adaptation” (annexed in March 2021) and for “Education, Scholarships, Apprenticeship and Youth Entrepreneurship” (annexed in September 2021).

² in the line with Annexes B of Memorandums of Understanding on the implementation of the N fm and EEA fm for the period 2014 – 2021, signed with the donor states on 17 April 2018.

1.5 Description of the steps taken to prepare the report and to draw the audit opinion

In the line with article 101 of the Slovene Public Finance Act and the Annex A of Memorandum of Understanding on the implementation of the Norwegian financial mechanism and European Economic Area Financial Mechanism (hereinafter: **N fm and EEA fm**) for the period 2014 - 2021, the Budget Supervision Office of Republic Slovenia (independent entity of the Ministry of Finance) is the main and only Audit Authority (hereinafter: **AA**) and consequently responsible for the preparation of this Annual Audit Report.

Annual Audit Report and opinion is prepared on the base of the Financial Guidance on how to carry out financial tasks under the EEA and Norwegian Financial Mechanisms for 2014-2021 (Financial Mechanism Office Guidance Version 1 – Updated September 2018).

In the year 2021 the AA has performed the audit of POs statements of actual expenditure incurred in the reference period and presented to the donors by 15 March 2021; the AA has also performed the audit of National Focal Point's statements of actual expenditure incurred in the reference period for "Technical assistance" and "Bilateral Fund" activities presented to the donors by 15 March 2021 and by 15 September 2021.

As the FMO signed the Agreement and the Request for services with the audit firm KPMG Oy Ab, and from April to June 2021 the KPMG executed "Audit of the Management and Control System in Slovenia for the EEA and Norway Financial Mechanisms 2014-2021" and issued the Audit report, the Independent Assurance Report and unqualified opinion (*"reasonable assurance that the MCS set up and operated by the National Level Authorities are designed in compliance with the regulatory requirements, their requirements are proportional in relation to effectiveness of achieving the objectives of the programme, and the MCS are operating effectively"*).

The system audit with the same auditees was also in the AA's plan for the year 2021 but was postponed to the next reference period (from 1st July 2021 to 30 June 2022) due to KPMG system audit (and to avoid double audit work for the same objective and the same auditees). In compliance with the concept of "single audit and reliance on the work of other auditors" (ISA 600) the AA can rely on the outsourced audit work, report and assurance. By the end of the year 2021 the AA started the planed system audit for National Authorities and both POs, also taking in the consideration that the public calls for selection of projects for programme EDUCATION and programme CLIMATE change were finally published (with final date for sending applications for projects by 30 September 2021).

The KPMG expressed an opinion/assurance that the management and control system is functioning in compliance with Regulations. The AA can provide a reasonable assurance that statements of actual expenditure incurred (and declared in IFRs) to the donors (the Norwegian Ministry of Foreign Affairs and the Financial Mechanisms Committee) are correct and as consequence reasonable assurance that the underlying transactions are legal and regular.

2. SIGNIFICANT CHANGES IN MANAGEMENT AND CONTROL SYSTEMS

In the line with Annexes A of Memorandum of Understanding on the implementation of the N fm and EEA fm for the period 2014 – 2021³ and the Description of the management and control system of the national entities of the N fm and EEA fm for the period 2014–2021⁴, both financial mechanisms are sharing the same management and control system:

- a) National Focal Point (hereinafter: **NFP**): Government Office for Development and European Cohesion Policy,
- b) Certifying Authority (hereinafter: **CA**) and Irregularities Authority: Department for management of EU funds, within the Budget Directorate of the Ministry of Finance
- c) **AA**: Budget Supervision Office, independent entity of the Ministry of Finance
- d) **POs**: Financial Mechanisms Division within the European Territorial Cooperation and Financial Mechanisms Office, within Government Office for Development and European Cohesion Policy

From 1st October 2021 changes in organization of the Government Office for Development and European Cohesion Policy were made: the European Territorial Cooperation and Financial Mechanisms **Office** is replaced by the European Territorial Cooperation and Financial Mechanisms **Division**, and the Financial Mechanisms Division is replaced by the European Territorial Cooperation and Financial Mechanisms **Section**.

- **NFP**: European Territorial Cooperation and Financial Mechanisms **Division**, with the new Head of NFP
- **POs**: European Territorial Cooperation and Financial Mechanisms **Section**, with the new Head of both POs

Due to changes in the organizational units and in responsible persons, which are not executed in the reference period (from 1st July 2020 to 30 June 2021), the AA will assess the influence of these changes in the management and control system with postponed system audit in the next reference period (from 1st July 2021 to 30 June 2022).

3. CHANGES TO THE AUDIT STRATEGY

The audit strategy for this reference period is in version 2; in the audit plan for the next reference period the postponed system audit is included.

³ Annexes A were changed by the »Exchange of letters (June 2019)

⁴ DCMS Version 1 (July 2019) and DCMS Version 2 (December 2021)

4. SYSTEMS AUDITS

As the FMO signed the Agreement and the Request for services with the audit firm KPMG Oy Ab and from April to June 2021 the KPMG executed “Audit of the Management and Control System in Slovenia for the EEA and Norway Financial Mechanisms 2014-2021” and issued the Audit report, the Independent Assurance Report and unqualified opinion for NFP, PO, CA, IA and AA.

The system audit of the Management and Control System in Slovenia was also in AA’s plan for the year 2021 but was postponed to the next reference period (from 1st July 2021 to 30 June 2022) due to KPMG system audit and to avoid double audit work for the same objective and the same auditees.

The KPMG expressed an opinion/assurance that the management and control system is functioning in compliance with Regulations (*“reasonable assurance that the MCS set up and operated by the National Level Authorities are designed in compliance with the regulatory requirements, their requirements are proportional in relation to effectiveness of achieving the objectives of the programme, and the MCS are operating effectively”*).

In compliance with the concept of **“single audit and reliance on the work of other auditors”** (ISA 600) the AA can rely on the outsourced audit work, report and assurance. In December the AA started the planned system audit for both POs, as their public calls were finally published (with final date for sending applications for projects on 30 September 2021).

5. AUDITS OF PROJECTS

In the reporting period the AA performed audits of declared expenditure for managing both programmes, and for “Technical assistance” and “Bilateral Fund” activities. The POs, NFP and CA issued following IFRs to the donors:

PROGRAMME	IFR No	Declared amount (in €)	Audited amount (in €)	Coverage (in %)	Ineligible expenditure (in €)	Error rate (in %)
EDUCATION	3	89.794	89.794	100%	0	0%
EDUCATION	4	37.686	0	0%	0	0%
EDUCATION		127.480	89.794	70 %	0	0 %
CLIMATE change	3	36.657	36.657	100%	0	0%
CLIMATE change	4	37.708	0	0%	0	0%
CLIMATE change		74.365	36.657	49 %	0	0 %
Technical Assistance	4	25.428	25.428	100%	0	0%
Technical Assistance	5	25.173	20.740	82%	0	0%
Technical Assistance		50.601	46.168	91 %	0	0 %
Bilateral Fund	4	16.160	16.160	100%	0	0%
Bilateral Fund	5	27.354	0	0%	0	0%
Bilateral Fund		43.514	16.160	37 %	0	0 %
TOTAL		295.960	188.779	64 %	0	0 %

The declared expenditure for managing programme “EDUCATION, Scholarships, Apprenticeship and Youth Entrepreneurship” is in the amount of 127.480 €. The AA audited 3rd IFR (70 % audit coverage). The declared expenditure for managing programme “CLIMATE Change Mitigation and Adaptation” is in the amount of 74.365 €. The AA audited 3rd IFR (49 % audit coverage).

The declared expenditure for other allocations were in the amount of 50.601 € for “Technical assistance” (2 certified reports of the NFP and AA) and in the amount of 43.514 € for “Bilateral Fund” (2 certified reports of the NFP). The AA reported on the audit of the selected certified reports in the amount of 46.168 € for “Technical assistance” (91 % audit coverage) and in the amount of 16.160 € for “Bilateral Fund” (37 % audit coverage) and found **no ineligible expenditure**.

The total audited amount is **188.779 €** from the population in the amount of 295.960 €, so the sample size is 64 %. In the sample the AA found no irregular or ineligible expenditure, so the total **error rate is 0 %**.

6. CO-ORDINATION BETWEEN AB AND SUPERVISORY WORK OF THE AA

In the reporting period no outsourced audit was performed and there was no coordination between audit bodies and the AA.

7. OTHER INFORMATION

In the reference period there was no suspicion of fraud detected and reported.

8. OVERALL LEVEL OF ASSURANCE

As in the reference period the outsourced audit firm KPMG performed system audit, assurance on the proper functioning of the management and control system was given. The expenditure from programmes were declared only for managing the programmes, "Technical assistance" and "Bilateral Fund" activities. The results of audits of expenditures gives assurance on the legality and regularity of the expenditure declared to the donors.

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Dušan Sterle
Director



REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE

BUDGET SUPERVISION OFFICE
OF THE REPUBLIC OF SLOVENIA

**For the: Financial Mechanisms Committee (FMC), Financial Mechanism Office (FMO)
and Norwegian Ministry of Foreign Affairs (NMFA)**

INTRODUCTION

The undersigned Dušan Sterle, representing the Budget Supervision Office, as the authority responsible for auditing the functioning of the management and control system established for the Norwegian and the EEA Financial Mechanism for the period 2014 - 2021, and for the issuing an opinion to the FMC/NMFA/FMO as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC/NMFA/FMO are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.

LIMITATION OF THE SCOPE

The scope of the examination in the reference period was limited by the following factors:

- system audit "Audit of the Management and Control System in Slovenia for the EEA and Norway Financial Mechanisms 2014-2021" was performed from April to June 2021 by outsourced audit firm KPMG Oy Ab (which issued the Audit report, the Independent Assurance Report and unqualified opinion)
- limited statements of expenditure were submitted to donors (Intermediate Financial Reports of the Programme Operators only expenditure for managing the programmes "Climate Change Mitigation and Adaptation" and "Education, Scholarships, Apprenticeship and Youth Entrepreneurship" and Intermediate Financial Reports of the National Focal Point for "Technical Assistance" and "Bilateral Fund" activities).

UNQUALIFIED OPINION

Because of the non-significance of the matter described in the limitation of the scope, I have been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. In compliance with the concept of "single audit and reliance on the work of other auditors" (ISA 600) I rely on the KPMG's opinion that the management and control system functions effectively and I can provide a reasonable assurance that statements of actual expenditure incurred presented to the FMO are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.

Date: 18 January 2022



Dušan Sterle, Director

