



EUROPEAN COMMISSION
DIRECTORATES-GENERAL
EMPLOYMENT, SOCIAL AFFAIRS AND INCLUSION
REGIONAL AND URBAN POLICY
Joint Audit Directorate for Cohesion - DAC - The Director

Brussels,
EMPL.REGIO.DAC.5/EV/ak(2022)3410179

**Subject: EPM "Audits on the European Union Solidarity Fund"
EUSF assistance: 2014SI16SPO001 - Ice storm 2014**

Ref.: Audit No DAC514SI1110 (*to be used in all correspondence*)

EC letter communicating draft audit report
Ares(2022)1754414 09/03/2022 and Ares(2022)1090833 15/02/2022

Member State Reply not received

Your Excellency,

I am writing to inform you that the Directorates-General Employment, Social Affairs and Inclusion and Regional and Urban Policy has not received the reply from the national authorities to the draft audit report referred to above within the set deadline of 30 calendar days from reception of the national language version of the draft audit report. Therefore, the findings and the conclusions stated in the draft audit report communicated via letter Ares(2022)1754414 - 09/03/2022 are considered as accepted by the national authorities.

Please find enclosed the **final audit report** setting out the Commission auditors' final findings and related actions and recommendations.

No further action will be taken by the Commission services. The audit is therefore **closed**.

Yours faithfully,

(*Electronically signed*)

Franck Sébert

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Enclosure: Final audit report and annex

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European Court of Auditors (Chamber II – Investment for cohesion,
growth and inclusion)



Brussels,
EMPL.REGIO.DAC.5/EV(2022)3410179

FINAL AUDIT REPORT

Audit No. DAC514SI1110

ENQUIRY: Audit on the European Union Solidarity Fund (EUSF)

FUND(S): EUSF

MEMBER STATE: Slovenia

EUSF ASSISTANCE: 2014SI16SPO001

AUTHORITIES AUDITED: MA - Ministry of Economic Development and Technology (Ministrstvo za gospodarski razvoj in tehnologijo)
AA - Ministry of Finance (Ministrstvo za finance, Urad RS za nadzor proračuna)
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MA-IB - Ministrstvo za okolje in prostor
MA-IB - Ministrstvo za kmetijstvo, gozdarstvo in prehrano
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DATE OF AUDIT: 13/12/2021 - 17/12/2021

DG/UNIT CHEF DE FILE: DAC.5

PRINCIPAL AUDITOR: Eleftherios Vasilopoulos

ASSOCIATED AUDITORS: Philippe Bossiere

EXTERNAL FIRM:

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LIST OF ACRONYMS

DAC	Joint Audit Directorate
DG REGIO	Directorate General Regional and Urban Policy
EC	European Commission
EPM	Enquiry Planning Memorandum
EUSF	European Union Solidarity Fund
INTOSAI	International Organization of Supreme Audit Institutions
MS	Member State

1. LEGAL BASIS

The legal basis for the audit is Article 11 of Council Regulation (EC) No 2012/2002. This mission was performed in the context of the Enquiry Planning Memorandum on Audits on the European Union Solidarity and DG REGIO's audit strategy.

2. OBJECTIVES

The main objective of the audits of EUSF assistance is to seek reasonable assurance that the expenditure financed by EUSF is legal and regular i.e., that it complies with the EUSF Regulation, the relevant Commission Decision granting the aid and other applicable legislation or contractual provisions.

For this purpose, the Joint Audit Directorate for Cohesion audits seek reliance, in a first instance, on the assurance provided by (i) the opinion drawn-up by the independent audit body and (ii) by the management and control arrangements put in place by the national authorities for the implementation of the specific EUSF assistance. This objective is pursued through control testing of those management and control arrangements and by substantive testing of a sample of the expenditure declared.

Additionally, where the auditors identify "processes and procedures which constitute excess administrative burden and cost or can be simplified without undermining the overall assurance and effectiveness of the management and control system", they will disclose those processes and procedures and the proposed simplification in the audit report.

3. AUDIT SCOPE

The audit relates to the assistance of EUR 18 388 478 granted by the Commission, in the framework of EUSF under the CCI 2014SI16SPO001. The assistance was used to finance emergency measures to Slovenia in relation with a major natural disaster caused by an ice storm in 2014.

This assistance has been granted by the Commission Decision C(2015) 2063 final. This Decision shall be implemented by the agreement concluded between the Commission and Slovenia on 23.03.2015, hereafter "the implementation agreement".

The audit scope includes the transactions underlying the expenditure of an amount of EUR 20 662 918.32 declared as effectively spent.

The audit scope included the national authorities involved in the preparation of the closure, described as follows:

1. Ministry of Finance (Ministrstvo za finance, Urad RS za nadzor proračuna) in its function as the independent audit body;
2. Ministry of Economic Development and Technology (Ministrstvo za gospodarski razvoj in tehnologijo) in its function as the body responsible for coordinating the implementation; and
 1. the Ministry of Infrastructure (Ministrstvo za infrastrukturo);
 2. the Ministry of Environment and Spatial Planning (Ministrstvo za okolje in prostor);

3. the Ministry of Agriculture, Forestry and Food (Ministrstvo za kmetijstvo, gozdarstvo in prehrano) and
4. the Ministry of Defense, Administration of the Republic of Slovenia for Protection and Rescue (Ministrstvo za obrambo, Uprava RS za zaščito in reševanje) in their function as implementing bodies.

During the preparation of the audit, the Commission auditors identified the main risks of the programme and drew the following sample of ten projects to check the expenditure declared. The sample was randomly selected from the total population as it was provided in the final implementation report. One project (Arboretum) sampled by the Commission auditors was also audited by the AA. Whilst the AA audited one invoice of this project the Commission auditors audited the project exhaustively.

1	Nazarje	LC Nazarje - Kokarje - Lačja vas	22.896,70
2	Dobrna	LC 464161 Dobrna-Hudičev graben - Krištaje	14.341,60
3	Zavrč	LC 102081 Plaz na Borl - Zavrč	32.823,33
4	Oplotnica	plaz nad stan. Hišo Očko Vladimir	81.647,75
5	Hrastnik	Plaz Brdce - Homšek	31.876,03
6	Mislinja	LC 261070 Šentlenart - Zilc Fužina 3	18.192,12
7	Zagorje ob Savi	JP 982415 Na Bregu - Na Bregu 22	27.182,34
8	Javni zavod Arboretum Volčji Potok	Izvedba konservatorsko - restavratorskih del za odpravo posledic škode nastale ob žledu februarja 2014 za kulturne spomenike: Volčji Potok - Arboretum (EŠD 7904), Spodnji Slemen - Park gradu Viltuš (EŠD 7884) in Spodnji Slemen - Park gradu Viltuš (EŠD 7884) in Snežnik - območje gradu Snežnik (EŠD 8765)	699.964,47
9	Mestna občina Ljubljana	Parki: Pot Pot (EŠD 1116), Park Tivoli (EŠD 7590) in Botanični vrt (EŠD 7914)	70.167,10
10	Prevalje*	MINISTRSTVA ZA OBRAMBO - UPRAVE RS ZA ZAŠČITO IN REŠEVANJE (MO-URSZR)	33.798,69

For one project (Prevalie) the audit team drew a sub-sample of the following four items.

Popravilo svetilk in kandelabrov na Prisojajh	Elektro Celje d.d., Vrunčeva 2a, 3000 Celje	306,52
Intervencija na gozdnih cestah	Gozdno gospodarstvo Slovenj Gradec d.d., Vorančev trg 1, 2380 Slovenj Gradec	3.590,35
Refundacija prejema za mesec februar	Metal Ravne d.o.o., Koroška cesta 14, 2390 Ravne na Koroškem	428,96

Posek in spravilo polomljenega lesa - žled	Andrej Domej, Breznica 27, 2391 Prevalje	450,00
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4. APPROACH

The audit work was carried out in accordance with the methodology set out in the above-mentioned Enquiry Planning Memorandum.

The audit was performed in line with ISSAI 4000 (compliance audit guidelines from INTOSAI)¹.

The following information was examined before the audit:

- audit opinion drawn-up by the independent audit body;
- our services' assessment of that audit opinion;
- Member State's final implementation report

The information required for the preparation of the mission was requested to the national authorities and provided by 26.11.2021.

¹<http://www.issai.org/issai-framework/4-auditing-guidelines.htm>

5. FINDINGS AND ACTIONS TO BE TAKEN/ RECOMMENDATIONS

5.1. FINDINGS RELATED TO MANAGEMENT AND CONTROL SYSTEMS

Finding 01

Key requirement: KR06 - Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries

Assessment criteria: AC 6.1

The implementing authorities did not develop a centralised system to record the actions and interventions undertaken and to aggregate the expenditure paid. Each implementing body was keeping separate records in different formats, which were then forwarded to the coordinating body. The lack of consistency makes the work of the coordinating body and audit authority more difficult. It also increases the risk for double entries/double funding.

During the audit the implementing bodies explained the manual crosschecks they applied to mitigate the risk. The Commission auditors consider these checks adequate and did not find any case of double funding.

The audit body had identified the issue in their system audit and expressed a similar finding in their audit report.

Action to be taken/recommendation

Recommendation 01.01

In case of future cases, the coordinating body are advised to develop a central database and give access to the implementing and audit bodies.

Importance: Important

Body responsible:

MA - Ministry of Economic Development and Technology (Ministrstvo za gospodarski razvoj in tehnologijo)

Deadline for implementation: One month

Position of the Member State:

Recommendation 01.01: Accepted

No reply by the Member State received.

Conclusion of the Commission:

The recommendation 01.01 is Closed

As no reply was received to the draft audit report, the Commission services consider that the recommendation has thereby been accepted.

The recommendation is therefore **closed**.

Finding 02

Key requirement: KR16 - Adequate audits of operations

Assessment criteria: AC 16.1

The Commission auditors analysed the report of the audit body and more specifically the selection of the samples for the system audit and the audits of operations. The audit body did not provide details regarding the method and parameters of their sampling. The audit body selected 12 items for the system audit and, out of those, 5 for audits of operations.

The Commission auditors consider that the sample provides adequate coverage, as these 5 items cover the main implementing bodies and approx. 5% of the total expenditure.

Action to be taken/recommendation

Recommendation 02.01

In case of future cases, the audit body should provide more detailed information regarding the method used for randomly selecting the sampling units.

Importance: Important

Body responsible:

AA - Ministry of Finance (Ministrstvo za finance, Urad RS za nadzor proračuna)

Deadline for implementation: One month

Position of the Member State:

Recommendation 02.01: Accepted

No reply by the Member State received.

Conclusion of the Commission:

The recommendation 02.01 is Closed

As no reply was received to the draft audit report, the Commission services consider that the recommendation has thereby been accepted.

The recommendation is therefore **closed**.

Finding 03

Key requirement: KR18 - Adequate procedures for providing reliable audit opinion and for preparing the annual control report

Assessment criteria: AC 18.3

In their audits of operations, the audit body identified ineligible expenditure of EUR 3 795.03. The audit body did not project the error found to the whole population nor provided a calculation of the total error rate.

The Commission auditors recalculated the error rate based on the audit body's results, as follows:

Positive population characteristics	Total book value (declared expenditure in the reference period)	20,662,918 €
	Sampling unit	Intervention Contract Municipality
	Size of population (number of sampling units)	675
Sample and audit results	Sample size (n)*	5
	Expenditure of the sample	992,550 €
	Sample total error (sum of the errors in the sample)	3,795 €
	Sample average error	759.01 €
Projection	Projected error (mean-per-unit estimation)	512,329.05 €
	Projected error rate (mean-per-unit estimation)	2.48%
	Projected error (ratio estimation)	79,004.97 €
	Projected error rate (ratio estimation)	0.38%

However, based on the results of the Commission's sample audits and the ineligible expenditure in finding 4 below, the error rate is higher:

Positive population characteristics	Total book value (declared expenditure in the reference period)	20,662,918 €
	Sampling unit	Intervention Contract Municipality
	Size of population (number of sampling units)	675
Sample and audit results	Sample size (n)*	10
	Expenditure of the sample	1,032,890 €
	Sample total error (sum of the errors in the sample)	18,909 €
	Sample average error	1,890.86 €
Projection	Projected error (mean-per-unit estimation)	1,276,327.80 €
	Projected error rate (mean-per-unit estimation)	6.18%
	Projected error (ratio estimation)	378,264.85 €
	Projected error rate (ratio estimation)	1.83%

Due to the fact that:

- as noted in finding 1 above, the implementing bodies did not use a common unit to declare expenditure;
- the sampling units vary significantly in terms of context and amount;
- the error was found in the unit with the highest value

the appropriate method for the calculation of the error rate is the ratio estimation.

Action to be taken/recommendation

Recommendation 03.01

The recalculated error rate after the Commission audit is 1.83% and the residual error is 1.81% or EUR 374 469.85.

The Member State has already submitted the final payment application, which has been processed by the Commission services. The residual error is covered by the declared overbooking of EUR 2 267 664.97. Therefore, there is no need for financial correction.

Importance: Important

Body responsible:

AA - Ministry of Finance (Ministrstvo za finance, Urad RS za nadzor proračuna)

Deadline for implementation: One month

Position of the Member State:

Recommendation 03.01: Accepted

No reply by the Member State received.

Conclusion of the Commission:

The recommendation 03.01 is Closed

No further action will be taken by the Commission services. The recommendation is therefore **closed**.

5.2. EXCESSIVE PROCEDURES AND RULES WHICH CONSTITUTE ADMINISTRATIVE BURDEN

The Commission auditors have not identified any excessive procedures and rules which constitute administrative burden other than the manual data processing as described in finding 1.

5.3. FINDINGS RELATED TO THE EXAMINATION OF LEGALITY AND REGULARITY OF EXPENDITURE

Finding 04

The Commission auditors checked operation Arboretum, where the beneficiary implemented 42 recovery measures; measure 18 was the maintenance of the new trees for up to three years after planting. In November 2015, the Ministry of Environment prepaid the maintenance for the whole three-year period until 2018. It was the only operation that this happened; in other similar projects audited (Mestna občina Ljubljana) the implementing Ministry took out these amounts from the beneficiaries' payment claims. According to Article 8 of Council Regulation (EC) No 2012/2002 "The financial contribution from the Fund shall be used within eighteen months from the date on which the Commission has disbursed the full amount of the assistance". The amount declared for measure 18 was EUR 27 228.32² in four invoices. In accordance with the applicable rules, in this case, only the expenses from November 2015 up to 08/10/2016 are eligible and therefore the remaining EUR 18 908.56 (27 228.32*25/36) falling outside the 18-month period are ineligible.

Action to be taken/recommendation

Recommendation 04.01

The Commission auditors calculated the ineligible expenditure for this operation to EUR 18 908.56.

The impact to the total declared expenditure is calculated in finding 3 above.

The Member State has already submitted the final payment application, which has been processed by the Commission services. The individual error is covered by the declared overbooking of EUR 2 267 664.97. Therefore, there is no need for financial correction.

² 2 704.80+7 212.80+1 081.92+16 228.80 = 27 228.32

Importance: Important

Body responsible:

MA-IB - Ministrstvo za okolje in prostor

Deadline for implementation: One month

Position of the Member State:

Recommendation 04.01: Accepted

No reply by the Member State received.

Conclusion of the Commission:

The recommendation 04.01 is Closed

No further action will be taken by the Commission services. The recommendation is therefore **closed**.

6. AUDIT OPINION

Based on the work carried out, described in section 4 of this report, the Directorate-General of Regional and Urban Policy has reasonable assurance that the expenditure declared by Member State in amount of EUR 20 662 918.32 complies with the relevant eligibility rules, except for the ineligible amount of EUR 18 908.56, as described in section 5 above.

This opinion is without prejudice of further comments that competent Commission services, i.e. the Directorate-General of Environment, may wish to present to the national authorities in regard to the compliance with environmental rules.

Signatures of the EC audit team

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Philippe Bossiere

(Principal auditor)

(Associated auditor)

Beatrice Stanciu

Cendrine De Buggenoms

(Deputy Head of unit)

(Head of unit)

ANNEX I - IMPORTANCE OF RECOMMENDATIONS

System findings

Critical: Corrective action is needed to address a fundamental weakness in key controls, which puts in question the reliability of the whole or part of the management and control systems, and has led or may lead to widespread irregularities. There is a substantial risk to the reliability of (financial and other) reporting for the programme, the effectiveness and efficiency of the operations and activities and the compliance with national and EU regulations.

Very Important: Corrective action is needed to address a significant weakness in key controls, affecting the reliability of a significant part of the management and control systems, which has led or may lead to irregularities. There is a high risk to the reliability of (financial and other) reporting for parts of the programme, the effectiveness and efficiency of some of the operations and activities and/or the compliance with national and EU regulations.

Important: Corrective action is needed to address a weakness or deficiency in the management and control systems, which has a moderate impact at the programme level but which, combined with other weaknesses, may lead to irregularities. Improved controls would benefit the implementation of the programme and/or allow for greater effectiveness and/or efficiency.

Project findings

Critical: Corrective action is needed to address a serious irregularity (including irregularity of systemic nature) with high financial impact.

Very Important: Corrective action is needed to address an irregularity with medium financial impact.

Important: Corrective action is needed to address a weakness or an irregularity with no or limited (potential) financial impact.