Addendum to Administrative Agreement
on co-operation on audits and controls with regard to the
Cohesion Fund between the European Commission
and the Budget Supervision Office at the Ministry of Finance in Slovenia

Whereas:

An administrative agreement ("the Agreement") on co-operation on audits and controls between the European Commission and the Budget Supervision Office at the Ministry of Finance of Slovenia was entered into on 31 May 2005,

The parties to the Agreement ("the parties") have agreed to further strengthen their co-operation with regard to the audit of the Cohesion Fund as set out below,

Article 1

The forms of assistance covered by this addendum are set out in Annex 1 to this addendum. The audit of the management and control systems of forms of assistance covered by this addendum and the sample checks on individual operations pursuant to Articles 9, 10, 11, 13 and 14 of Commission Regulation (EC) No 1386/2002 shall be carried out by the national authorities in accordance with the audit strategy document dated 15 November 2007, by which they confirm that there will be an adequate basis for providing reasonable assurance on the legality and regularity of expenditure declared. The Budget Supervision Office at the Ministry of Finance of Slovenia shall notify any revisions to the audit strategy document to the Commission.

Article 2

The national authorities shall send audit reports on management and control systems referred to in Article 2 of the Agreement to the relevant departments of the Commission without delay. These audit reports shall contain, or be accompanied by, a summary setting out the main findings, conclusions and recommendations which shall not exceed 5 pages.

Article 3

The national authorities shall submit the annual report provided for in Article 12 of Regulation (EC) No 1386/2002 on the basis of the model indicated in Annex 2 to this addendum. It shall contain all the information referred to in that model. The report shall be signed or countersigned by the body designated under Article 13 of Regulation (EC) No 1386/2002. The Commission shall present its observations on the report at the latest at the next annual meeting provided for in Article G Annex II of Regulation (EC) No 1164/1999 occurring after the receipt of the report.

Article 4

The Commission shall limit its audit activity in relation to the forms of assistance covered by this addendum to that necessary for it to be satisfied that the audit strategy is effectively
implemented and that the annual reports referred to in Article 3 of this addendum and the winding up declarations drawn up by an independent body under Article 12 (1)(f) of Regulation (EC) No 1164/1999 are reliable. The level of audit work which the Commission intends to carry out after signature of this addendum is set out in Annex 3 to this addendum.

Article 5

The conclusions of the first report submitted under Article 12 of Regulation (EC) No 1386/2002 following signature of this addendum shall cover all preceding years from the start of the 2004-2006 period.

Article 6

The Commission may suspend the effects of this addendum by letter signed by the Director General for Regional Policy and sent to the other party. Before doing so it shall notify the other party of its intention, stating its reasons and giving not less than 4 weeks for comments to be submitted.

Article 7

The Budget Supervision Office at the Ministry of Finance of Slovenia may suspend the effects of this Addendum by letter signed by the Director of the budget Supervision Office of the Republic of Slovenia and sent to the other party. Before doing so it shall notify the other party of its intention, stating its reasons and giving not less than 4 weeks for comments to be submitted.

Brussels, 12.02.2008

The European Commission, represented by Mrs. Danuta Hübner, Commissioner in charge for Regional Policy

The Ministry of Finance, represented by Mr. Andrej Bajuk, Minister of Finance of the Republic of Slovenia

Ivan Žagar, Minister without portfolio responsible for Local Government and Regional Policy of the Republic of Slovenia
Annex 1 to Addendum

List of forms of assistance covered by this addendum

<table>
<thead>
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Annex 2 to Addendum

MODEL REPORT PURSUANT TO ARTICLE 12 OF REGULATION 1386/2002

Preliminary note

Article 12 of Regulation (EC) 1386/2002 ("the Regulation") provides that Member States shall inform the Commission by 30 June each year of their application of Articles 9, 10 and 11 of the Regulation which relate to system audits and sample checks on operations in the previous calendar year and in addition provide any necessary completion or updating of the description of their management and control systems communicated under Article 5 of the Regulation. The report is considered to be a useful tool for a thorough preparatory work for the declaration at winding-up of the assistance.
MODEL REPORT

1. INTRODUCTION
   > Identify the management and control systems covered by the report with reference to the projects and managing and paying authorities;
   > Indicate the bodies that have been involved in preparing the report, including the winding-up body itself and other audit bodies (15% sample checks);
   > Describe the steps taken for the preparation of the report;

2. COMPLETION AND UPDATING OF DESCRIPTION OF MANAGEMENT AND CONTROL SYSTEM UNDER ARTICLE 5
   > Indicate any completion or updating of the description previously provided giving the dates from which the changes are applicable.
   > Describe where appropriate any changes that are proposed or are likely to be introduced in the current year.

3. CHANGES TO THE AUDIT STRATEGY
   > Indicate any changes to the audit strategy which have been effected or are proposed, with explanation and justification for the changes.
   > Draw up a comparative table between works carried out and the initially foreseen working programme, with explanation of the reasons why changes occurred.

4. SYSTEMS AUDITS
   > Indicate the bodies which have carried out audits, including the winding-up body itself;
   > Attach a summary list of the audits carried out and indicate the date of transmission of the audit report to the Commission;
   > Describe the basis for selection of the audits in the context of the audit strategy;
   > Describe the principal findings and the conclusions drawn from the audit work for the management and control systems and their functioning, including the sufficiency of management checks, certification procedures and the audit trail, adequate separation of functions and compliance with Community requirements and policies;
   > Indicate whether any problems identified were considered to be of a systemic character, and the measures taken, including a quantification of any potential financial corrections.
5. **SAMPLE CHECKS ON EXPENDITURE**

- Indicate the bodies which have carried out the sample checks, including the winding-up body itself;
- Describe the basis for selection of the sample\(^1\) (sampling method) to take into account the requirements related to risk and representativity;
- Indicate the materiality level and, in the case of statistical sampling, the confidence level applied and the interval, if applicable;
- Attach a summary list\(^2\), broken down by sector/project, indicating the total eligible expenditure declared to the Commission, the amount of expenditure checked, the percentage of expenditure checked in relation to total eligible expenditure declared to the Commission;
- Describe the principal results of the checks, indicating in particular for each project the number of irregularities identified and the amount of irregular expenditure after finishing the contradictory procedure and the error rates found;
- Indicate the conclusions drawn from the results of the checks with regard to the effectiveness of the management and control system;
- Provide information on the follow up of the irregularities;
- Indicate whether any problems identified were considered to be of a systemic character, and the measures taken, including a quantification of any financial corrections.

6. **CO-ORDINATION BETWEEN AUDIT BODIES AND SUPERVISORY WORK OF WINDING-UP BODY**

- Provide information on the coordination between different audit bodies and the winding-up body (if applicable);
- Provide information on the on-going supervision by the winding-up body to independent audit bodies (if applicable).

7. **FOLLOW UP OF PREVIOUS YEARS’ AUDIT ACTIVITY**

- Provide information where appropriate on the follow-up of outstanding audit recommendations and/or results of system audits and expenditure checks from earlier years.

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\(^1\) Art. 9.2 & 3 of 1386/2002 provide for a sample of at least 15% of the total eligible expenditure

\(^2\) A model (in EXCEL) for this summary list is provided separately
8. **CONCLUSION**

In the conclusion it should be confirmed that

- The audit activity for the year concerned was in conformity with the audit strategy/audit schedule presented to the Commission. Where there was non-conformity or scope limitations these should be indicated and explained;

- It should be stated that the results of the audit activity do not show any material deficiency in the effective functioning of the management and control system applicable to the expenditure declared to the Commission for the year concerned. Where there are any reservation or limitations these should be indicated and explained;

- It should be confirmed that specific cases of irregularity have been treated satisfactorily, in particular by making the necessary financial corrections.
Annex 3 to Addendum

Statement of intent by the Commission on its audit activity

In view of the responsibilities and obligations of the Commission under Article 274 of the Treaty and the Financial Regulation and its implementing rules, it is not possible for the Commission to renounce or definitively to limit the powers to carry out on the spot checks laid down in Article 12 of Regulation (EC) No 1164/99.

Member States are required by the Treaty to co-operate with the Commission to ensure that the budget is used in accordance with the principles of sound financial management. Article 27 of the Financial Regulation applicable to the general budget of the European Communities lays down specific provisions for sound financial management while Article 48 (2) states that the Member States shall cooperate with the Commission so that the appropriations are used in accordance with the principle of sound financial management. With regard to the implementation of the Cohesion Fund, Member States are in the first instance, and following the provisions of shared management in the Financial Regulation, laid down in Article 53 (1), (3) and (5), responsible for financial control of forms of assistance.

It is the intention of the Commission that by entering into a contract of confidence with a Member State by the signature of an addendum to the administrative agreement on co-operation on audits and controls it will be able to obtain the assurance it requires to fulfil its responsibilities and obligations referred to above principally from the audit work of the national bodies, and that it will be able to reduce very significantly its own audit activity on the spot.

Before entering into a contract of confidence, the Commission will have reasonable assurance, on the basis of the assessment of the systems descriptions carried out under Article 5 of Regulation (EC) No 1386/2002, of the results of national audit work carried out, and of audits by its own services in some cases, that the systems for management and control of the forms of assistance concerned comply with the regulatory requirements. It will also have accepted the audit strategy established for the audit work of the national bodies both in relation to the management and control systems and for the sample checks on individual operations. Accordingly there will be a sound basis for considering that the forms of assistance concerned are low risk. Where there are specific risk elements associated with the type or types of operations covered by the forms of assistance, or linked to the implementation of the Community’s common policies, the audit strategy should have indicated expressly the way in which the audit work of the national bodies will take account of such risks.

The Commission may carry out audit work to be satisfied with regard to the effective implementation of the audit strategy and the reliability of the annual reports under Article 12 of Regulation (EC) No 1386/2002, including in particular:

- Review of the work of the national audit and control bodies, and the independent body under Article 13 of the regulation, which may include on the spot checks;

- Participation in the audits of the national audit and control bodies.
Apart from the work mentioned above, the Commission does not intend to carry out on its own:

- audits of the functioning of the systems of managing authorities and paying authorities or of intermediate bodies of forms of assistance covered by the addendum;

- audits of operations during the implementation period of the forms of assistance.

The Commission may in accordance with Article 12 of Regulation (EC) No 1164/1999 request the Member State to undertake an audit of a specified operation or operations. If the Member State fails to respond in a positive and timely way to such a request, or if with regard to specific risk elements identified for the type or types of operations covered by the forms of assistance the results are insufficient to give the Commission the assurance it requires, the Commission may carry out an audit itself.

In the event that there are indications of serious deficiencies or irregularities which have not been detected by the national audit bodies, and/or which have not been subject of appropriate remedial action, the Commission may carry out the audit work it considers necessary to assess whether the conditions for the contract of confidence remain fulfilled.

With regard to the winding up of the forms of assistance covered by the addendum, the intention of the Commission is that it will carry out a detailed review of the winding up declarations submitted at closure of each project.