



Summary of the audit report on the efficiency of the system for utilisation of funds from the European Social Fund to implement the measure 2.4 - Fostering Entrepreneurship and Adaptability in 2004 and 2005

In the 2004-2006 programming period in the frame of the Single Programming Document, the Republic of Slovenia was eligible to 237 million Euros of funds from the European Union Structural Funds, out of which 73 million Euros were deployed for implementation of the second priority task financed from European Social Fund (hereinafter, the ESF).

We audited the implementation of the measure 2.4 - *Fostering Entrepreneurship and Adaptability*, which was being implemented within the second priority task. Five billion Tolars of ESF funds were envisaged for this measure in this programming period .

The Ministry of Labour, Family and Social Affairs (hereinafter, the Ministry) and the Employment Service of Slovenia (hereinafter, the Service) implemented the *Fostering Entrepreneurship and Adaptability* measure in 2004 through the following sub-activities:

- 2.4.1.1 – Further training and education of employees - in restructuring sectors,
- 2.4.2.1 – Further training and education of employees - in perspective sectors,
- 2.4.3.2. – Co-financing of costs for entrepreneurship fostering and
- 2.4.4.1 – Local employment programmes.

With regard to the realisation of planned measures after two thirds of available time, we determine that individual sub-activities represent various risks for utilisation of funds from the EU budget.

The issues in sub-activities *training and education of employees* are mostly connected to the fact that the companies submitted projects with higher expected costs than they afterwards actually realised in carried out education and training. Amounts for executed education and training, pre-financed from the budget of the Republic of Slovenia, were repaid in full from the ESF by the European Commission. We determine that in case of these two sub-activities the risk for ESF utilisation is negligible. The set goals concerning the number of persons participating in the training and education were exceeded two or three times.

In the sub-activity *co-financing of costs for entrepreneurship fostering* the ESF utilisation procedure was complicated because of continuous changing of rules regarding eligible expenditures and time-consuming gathering of evidence of eligible expenditures. Lack of clarity in implementation procedures significantly prolonged the realisation time, which we assess as increased risk to utilise the ESF funds. The set goal regarding the number of participating unemployed persons was achieved.

Procedures for ESF utilisation were even longer in the sub-activity *local employment programmes*, because the recipients were eligible to higher amounts. The nature of sub-activity and time-consuming gathering of evidence of eligible expenditures present a high risk to utilise the ESF funds. The set goal regarding the number of created new workplaces was achieved only partially.

In 2004, the implementation of the measure at the Ministry was not organised and managed as a project. In addition, stability and quality of personnel were not ensured so that people, who were educated for this work and gained experience during the very implementation of this measure, would work on the measure. The substitution of the absent personell was not solved adequately. We determined high fluctuation of personnel at the Ministry and the Service for the implementation of audited sub-activities.

The control unit responsible for the control of eligible expenditures was established at the Ministry not earlier than in October 2004, when one person was appointed for this job. In 2004 and most of 2005, the control unit was very badly occupied personnel wise, which caused a bottleneck during the stage when the Ministry began to submit claims for the refund into the national budget to the paying authority.

During the audit of implementation of all audited sub-activities we determined that the Ministry does not prepare refund claims within the time limit specified by the Decree on the implementation of procedures for the use of structural policy funds in the Republic of Slovenia¹. In accordance with this Decree the Ministry should submit the refund claim with the evidence on performed controls and other required documentation to the paying authority within 30 days after the payment was carried out from the national budget. This time limit is unrealistic for the ESF payments, because in many cases it concerns advance payments and the gathering of evidence of eligible expenditures is time-consuming and can last several months or even years. Therefore, it would be necessary to think about an amendment to the Decree with special provisions, which would refer to utilisation of the ESF funds.

At the end of the year, the Ministry accelerated the preparation of refund claims. However due to system limitations, which do not enable the preparation of a new claim until the paying authority took the previous claim into consideration, it was not possible to send them to the paying authority, which caused a new bottleneck.

The Ministry and the Service shall have to considerably improve the efficiency of system operation to utilise the ESF funds by the four audited sub-activities. The Ministry should decide on the manner, in which it would be reasonable to continue to implement the sub-activities in order to achieve the Lisbon strategy goals, but with certain changes and improvements and also removal of determined risks and deficiencies. To simply redirect the sub-activities to the financing from the national budget, which the Ministry presented as one of the possibilities, is not the most appropriate solution, because the same principles apply for the reasonable use of public funds, irrespective of their source.

We wanted to point out the reasons for the too low efficiency and immediate removal of deficiencies mostly because of the new programming period, in which almost ten times more funds will be available in Slovenia from the Structural Funds than in the 2004-2006 period, therefore as high harmonisation of all participants of funds utilisation procedures as possible shall be required.

To correct the determined under-performance the Ministry has to submit a response report to the Court of Audit within 90 days after the receipt of the audit report, in which it has to present the activities for the establishment of the control system and control environment that has to ensure the prevention of mistakes, including provision of conformity of sub-activities with the state aid rules, and eliminate the delay during preparation of claims for repayment of funds into the national budget, and the improvement of information support to monitor the implementation of projects.

¹ Official Gazette of the Republic of Slovenia, No 30/04, 48/04, 87/04, 39/05.

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