

## Summary of the audit report *European Funds and State Aids*

The Court of Audit carried out the audit of the system for ensuring compliance with the State aid rules in managing funds of the European Regional Development Fund and the European Social Fund in the period between 25 January 2006 and 15 June 2007. The auditee was the Government Office of the Republic of Slovenia for Local Self-Government and Regional Policy, which is acting as the Managing Authority for Structural Funds and is responsible for implementation, management and control system.

According to the Treaty establishing the European Community, state aids are not compatible with the common market and are forbidden, however some exceptions are allowed. A Member State has to register the allocation of new aid in due time to the European Commission and may not allocate the aid before the European Commission's approval of such aid. In allocating the contributions of the Structural Funds 2004-2006 programming period, the Member States had to observe additional limitations concerning the amount of the Funds' contribution, which refers to investments into companies.

The Republic of Slovenia plans to allocate EUR 1,296 million of contributions from the European Regional Development Fund and the European Social Fund to private subjects in the period between 2004 and 2015. In this respect, it has to observe the limitations, which arise from the State aid rules. With the audit the Court of Audit wanted to verify whether in allocating the contributions of the Structural Funds the Managing Authority recognised risks in the field of state aids, whether it established elements to control these risks, and whether these elements are being performed, controlled and amended. The audit did not include the verification of correctness of individual allocation of funds to final recipients.

In the period, to which the audit refers, the 2004-2006 programming period measures were implemented and partially priorities of the 2007-2013 programming period, which have begun to be implemented in 2007. Because the operational programmes, system descriptions and instructions for the 2007-2013 programming period have not been entirely prepared or the European Commission has not yet approved them, the Court of Audit did not fully revised the system for ensuring compliance with the State aid rules for the 2007-2013 programming period.

The Managing Authority established a management and control system for allocation of Structural Funds, however according to the Court of Audit's opinion it did not act soundly in the following more important cases:

- it did not establish a systematic or integrated and substantive monitoring of the field of state aids in allocating the contributions of Structural Funds, including the definition of persons responsible and their tasks;
- in approving the implementation of measures and instruments of the 2004-2006 programming period, it did not carry out appropriate activities to control risks from the field of state aids: it approved and issued documents, which contained state aids schemes that were no longer valid or replaced with the new ones; approved measures and instruments enabled the companies the allocation of a higher share of the European Union funds as permitted by the Council Regulation (EC) No 1260/1999 laying down general provisions on the Structural Funds and the Single Programming Document;
- it did not perform the activities, with which it would make sure that the controls or the check lists to perform verifications of compliance with the State aid rules by the authorities, which allocate contributions of the Structural Funds to final recipients based on calls for projects and programmes, exist, are of suitable content and are actually being carried out;
- it did not establish a systematic recording and consideration of determined irregularities and

deficiencies of external supervisory institutions, also in the field of state aids.

The Court of Audit determined that the performance of the system for ensuring compliance with the State aid rules at the European Social Fund and the European Regional Development Fund was *in effective*, or that the Managing Authority did not carry out such activities, on the basis of which it could ensure compliance with the State aid rules in allocating the contributions of the Structural Funds.

To eliminate the determined under-performance the Government Office of the Republic of Slovenia for Local Self-Government and Regional Policy has to submit a corrective actions report within 90 days of the receipt of the audit report to the Court of Audit. In the corrective actions report it has to show that it defined the tasks of a systematic or integrated and substantive monitoring of ensuring of compliance with the State aid rules in allocating the Structural Funds and appointed the person responsible to perform these tasks, that it conducted a risk analysis in the field of state aids in allocating the Structural Funds, and that it issued instructions to implement the operations of the 2007-2013 programming period, which include procedures to ensure compliance with the State aid rules, including verification and action procedures.

To better control the risks in the field of state aids in allocating the Structural Funds in the 2007-2013 programming period, the Court of Audit recommended to the Government Office of the Republic of Slovenia for Local Self-Government and Regional Policy to strengthen its role in the training or coordination of the training of authorities involved in the implementation of the Structural Funds. The Managing Authority should acquire descriptions of procedures to ensure compliance with the State aid rules from the authorities involved in the implementation and verify suitability of the content of all check lists and systematically verifies their application. The check lists should have contained verifications concerning state aids for all activities, even those which are not foreseen to be funded in the frame of state aid schemes. It should carefully monitor and consider irregularities and deficiencies and examine all audit reports, which refer to the allocation of Structural Funds.

Ljubljana, 13 February 2008