



REPUBLIC OF SLOVENIA  
**COURT OF AUDIT**

## AUDIT REPORT

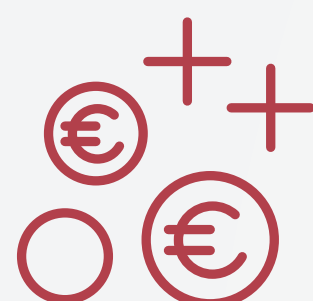
# **Efficiency of operations of the company Slovenian Railways in the field of mutual operations of the companies in the Slovenian Railways Group**

**Performance audit**

Audited period: 1 January 2013 to 31 December 2014

# Slovenian Railways Group

is a group of nine railway companies and a parent company Slovenian Railways.



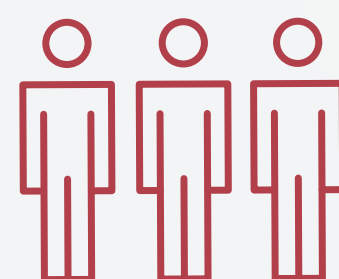
**€ 348 million**

revenue from mutual operations of the companies in the Group in the years 2013 and 2014



**€ 301 million**

funded from State budget for infrastructure maintenance and passenger transport in the years 2013 and 2014



approx. **8,000**

employees in the years 2013 and 2014

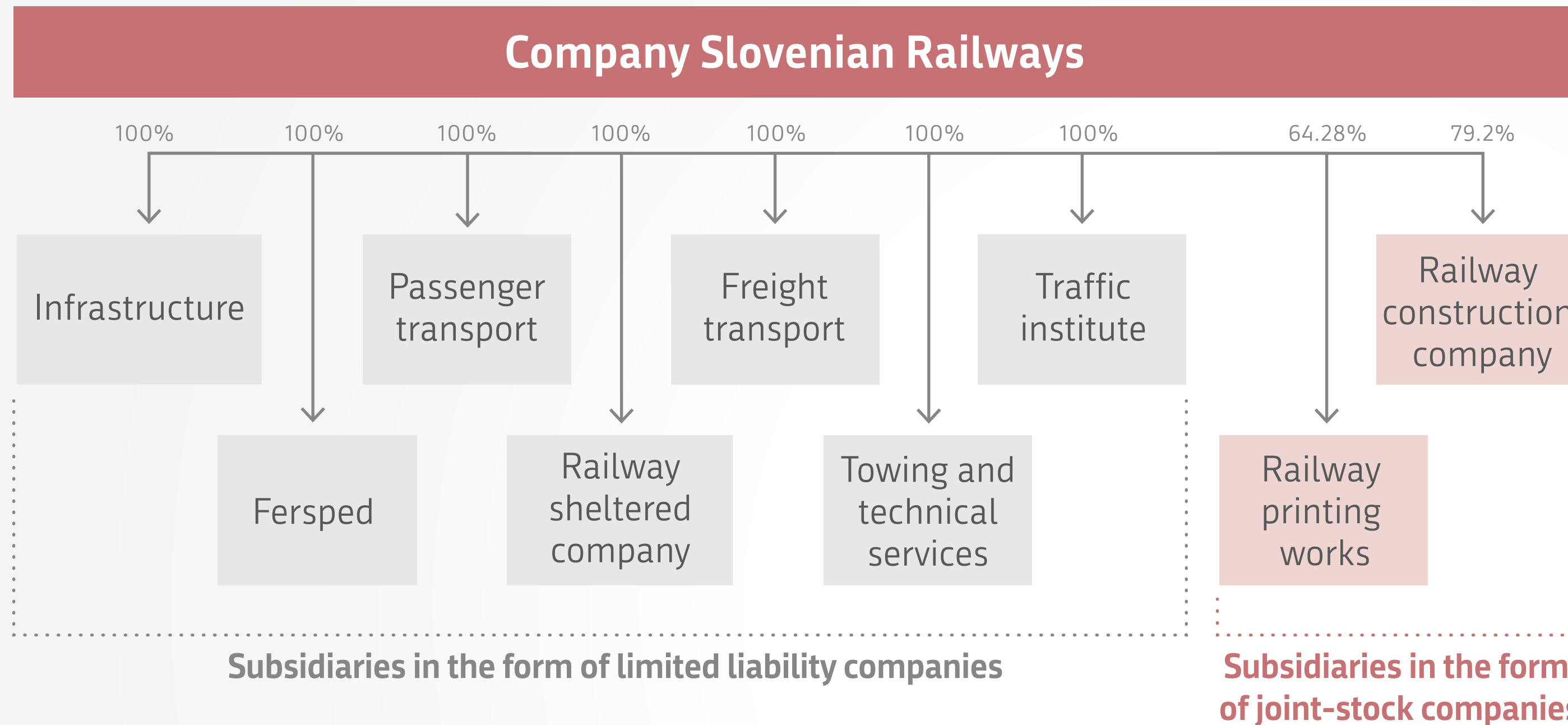


## WHAT WAS AUDITED?

Efficiency of operations of the company Slovenian Railways in the field of mutual operations of the companies in the Group pertaining to:

- **providing conditions** for managing operations of the Group's subsidiaries,
- **planning, managing and monitoring of implementation** as well as **controlling** of mutual operations of the companies in the Slovenian Railways Group.

# Slovenian Railways Group

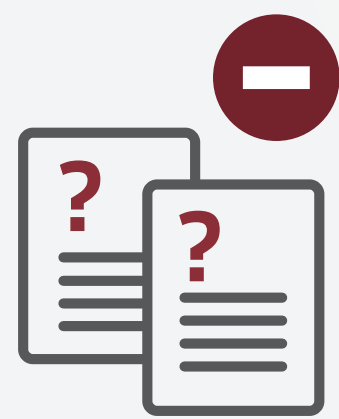


## PROVIDING CONDITIONS for managing operations of subsidiaries

 **Company Slovenian Railways failed to conclude controlling agreements** with two subsidiaries, which are joint-stock companies.

 The companies could thus neither be given binding instructions nor could be directly controlled.

## PLANNING of mutual operations of the companies in the Group



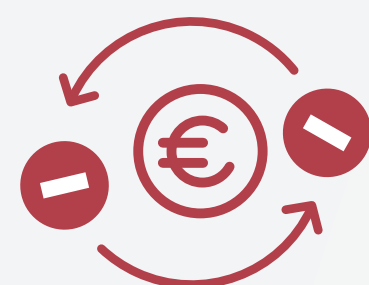
Company Slovenian Railways adopted **business plans** only in the middle of the current year.

The business plans **failed to monetise and to define substantial content** of mutual operations of individual companies to enable continuous control.

 This prevents identification of inter-annual derogations.

# MANAGING

## mutual operations of the companies in the Group



### Non-economic and non-competitive operations



**€ 36.7 million**

directly made transactions among companies **without public procurement procedures**

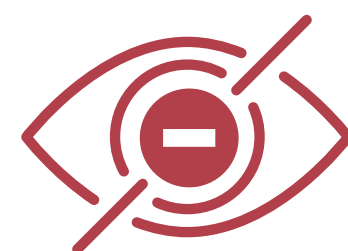


**€ 5 million**

directly made transactions among companies **without public procurement procedures** through outsourced fictitious "internal procurements"



Prior to making transactions among companies, **it was not examined whether the price offered was equal or lower** as on the market.



### Non-transparent business transactions



**Mutual transactions** were made **orally**



Written **agreements** were **concluded subsequently**



### Internal control weaknesses



**No documentation on actual performance of services** (security, cleaning, support services etc.).



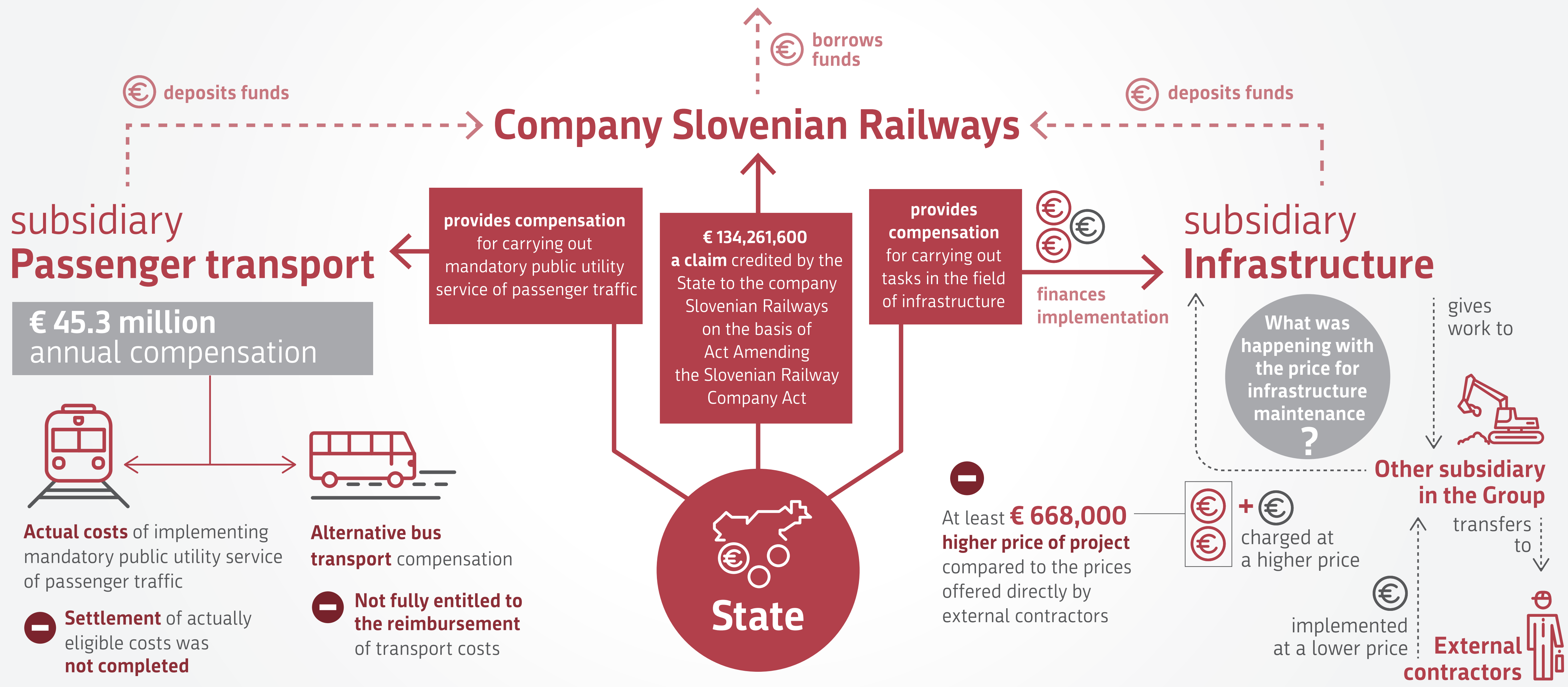
**approx. 8,000 employees** as well as pensioners and their family members, some public servants and external contractors **were granted free tickets or additional benefits** for the purchase of tickets



**Payment of monthly flat rate for consulting services** although certain services were **not carried out**; insufficient reporting on actually implemented services

1.  **System for funding companies of the Slovenian Railways Group**

**Subsidiaries** carrying out commercial services  **Company Slovenian Railways did not prevent transfer of assets from the companies in the Slovenian Railways Group, carrying out mandatory public utility service, to commercial part of activities of those companies and to other companies in the Slovenian Railways Group.**



## 2. System for funding companies of the Slovenian Railways Group



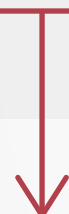
**Managers and other employees** of the Slovenian Railways Group **own private companies** registered for the activities **competitive to the companies in the Group**



Disposal of **investments not linked to railway transport**



**Managing 233 holiday premises**, although this is **not linked to a basic activity**



**Ineligible use of funds** earmarked for **disabled employees**, namely for the **investment in sports and recreation centre**



**€ 88 thousand**

**Trade unions** were allocated additional funds by the companies, although **they should be financed mostly through own financial sources**

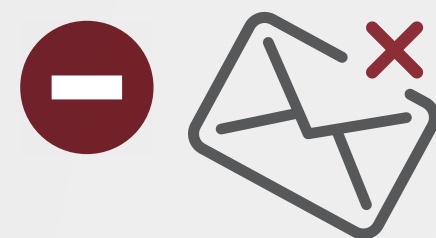


Concluding **indefinite sponsorship agreements** with unspecified rates that were **not made public**

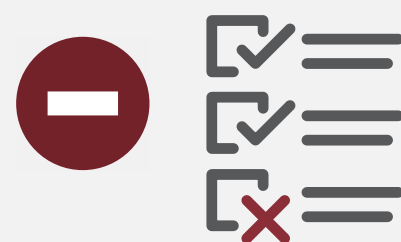


**Non-transparent recording of business** and mutual **transactions** in books of account and on issued invoices

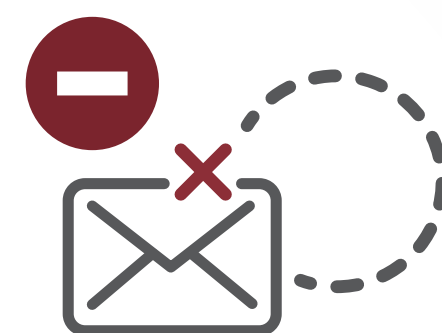
# MONITORING MUTUAL operations of the companies in the Group



**Supervisory Board** of the company Slovenian Railways **was not familiar with the instructions** of the parent company **given to subsidiaries** in the Group.



Company Slovenian Railways **did not establish a record** of instructions given to subsidiaries.



For subsidiaries, the company Slovenian Railways did **not define the scope and manner of reporting** on operations.

**The subsidiaries thus failed to monthly report** on their operations and on the relations within the Group.

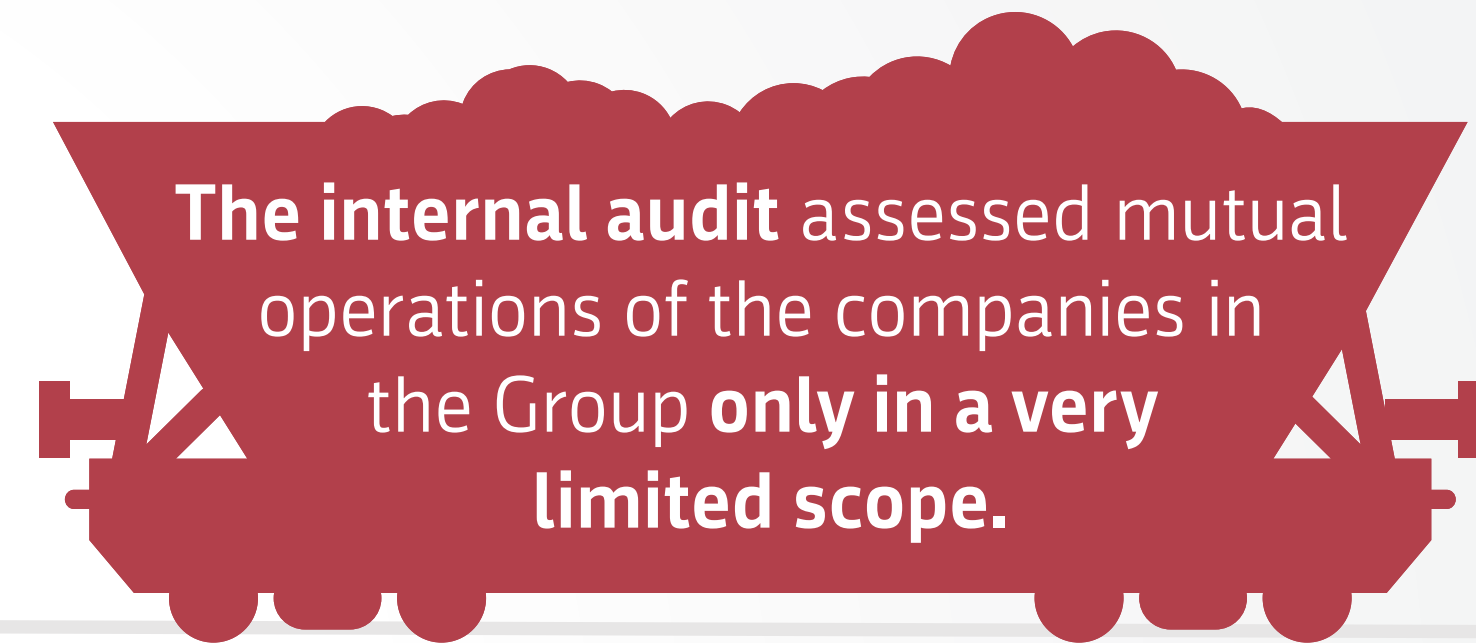
**It is not possible to determine** whether all the **instructions** given are **in line with the legislation**.

# CONTROLLONG

## mutual operations of the companies in the Group



Despite **estimated high risk** in the field of mutual operations, the planned **internal audit was not implemented.**



Company Slovenian Railways failed to carry out a **complete risk assessment** of irregularities and inefficiencies in mutual operations of subsidiaries;

**it did thus fail to identify fields where the greatest risks exist.**





## OPINION OF THE COURT OF AUDIT

Operations of the company **Slovenian Railways** in the field of mutual operations of the companies in the Slovenian Railways Group in the years 2013 and 2014 were **INEFFICIENT**.

### DEMANDS AND RECOMMENDATIONS

The Court of Audit **demanded from the company Slovenian Railways to implement the required corrective measures** and presented **recommendations for improving the efficiency of operations** of the company Slovenian Railways in the field of mutual operations of the Slovenian Railways Group.

