



REPUBLIC OF SLOVENIA
COURT OF AUDIT

AUDIT REPORT

Remuneration policy for managers of companies owned by the Republic of Slovenia and local self-governments

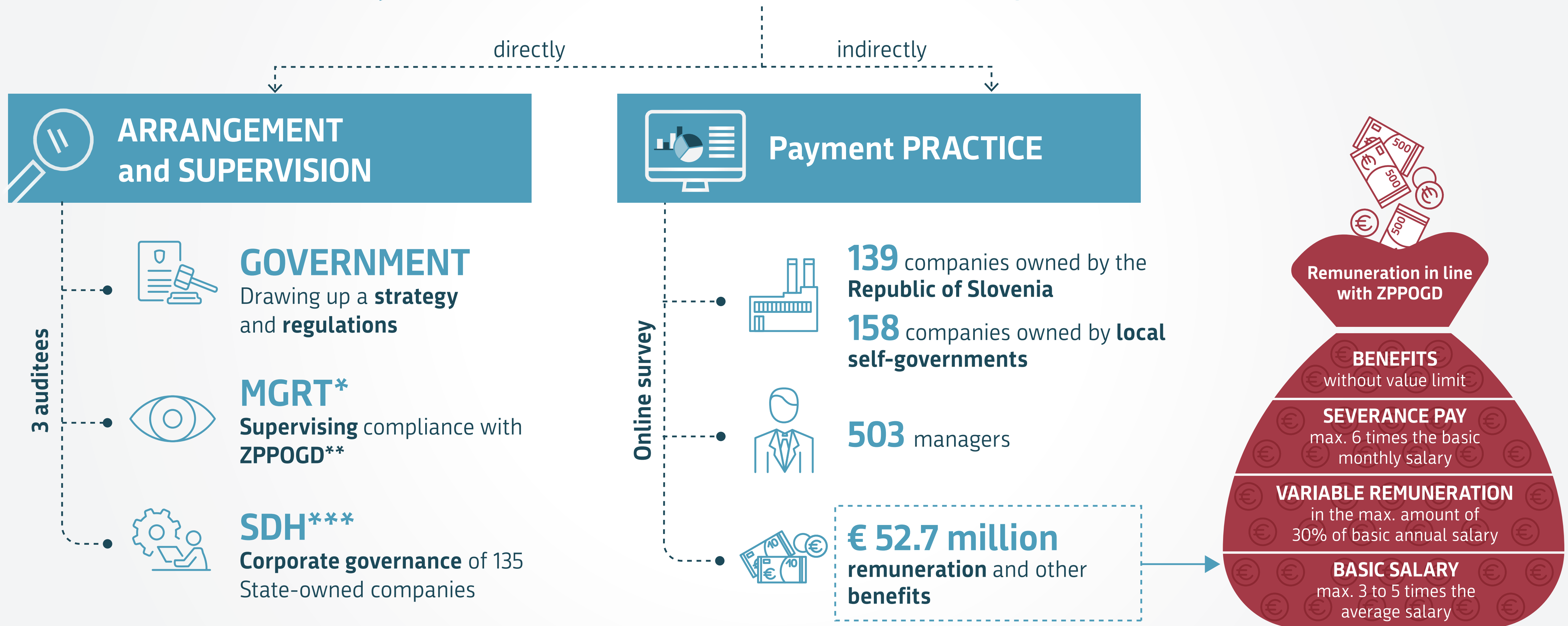
Performance audit

Audit period: 1 January 2016 to 31 December 2017



WHAT WAS AUDITED?

Remuneration policy for managers of companies with majority ownership held by the Republic of Slovenia and local self-governments



* Ministry of Economic Development and Technology


** Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities

*** Slovenian Sovereign Holding

WHY THE AUDIT?


1 Due to the scope of ownership the Republic of Slovenia holds in companies

Slovenia is one of the EU countries with the **highest share** of companies owned by the State



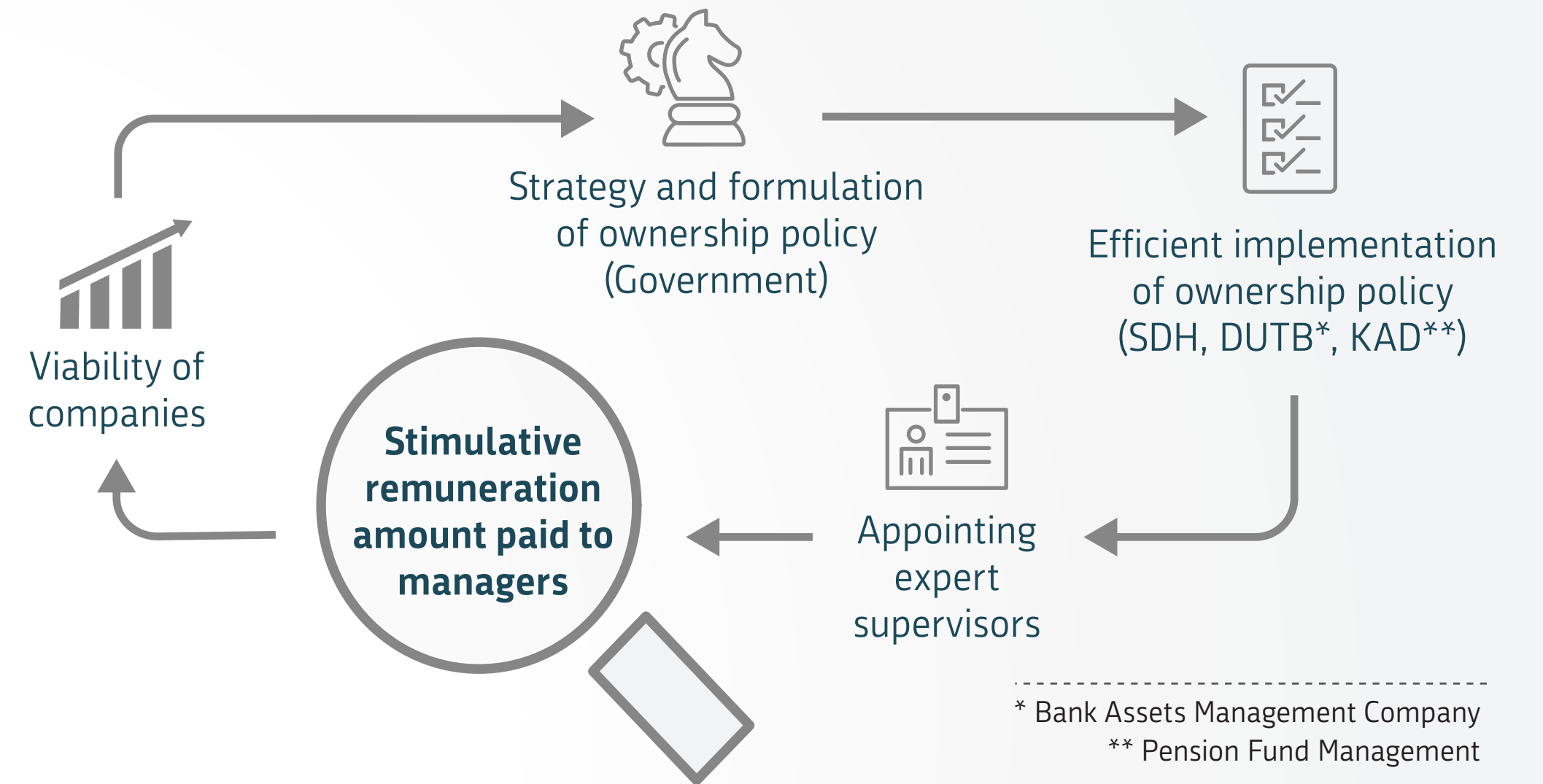
Solution laid down in Slovenian Development Strategy 2030 – **privatisation** of non-strategic companies?

Companies owned by the State are **less efficient** as comparable private companies

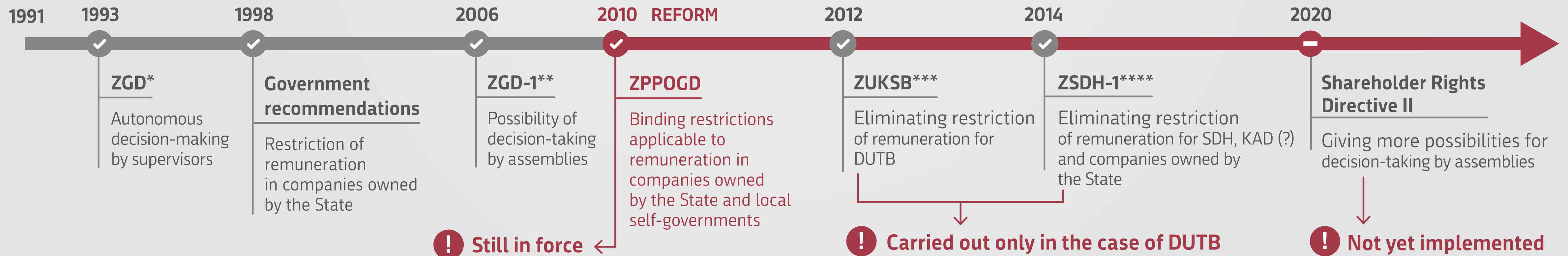


Improvements of the **State ownership policy** are necessary

2 Due to the importance of remuneration for managing companies



3 Due to non-uniform legal arrangements – who decides on remuneration and what type are they?



* Companies Act
** Amended Companies Act
*** Act Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks
**** Amended Slovenian Sovereign Holding Act

DATA ON REMUNERATION OF MANAGERS*

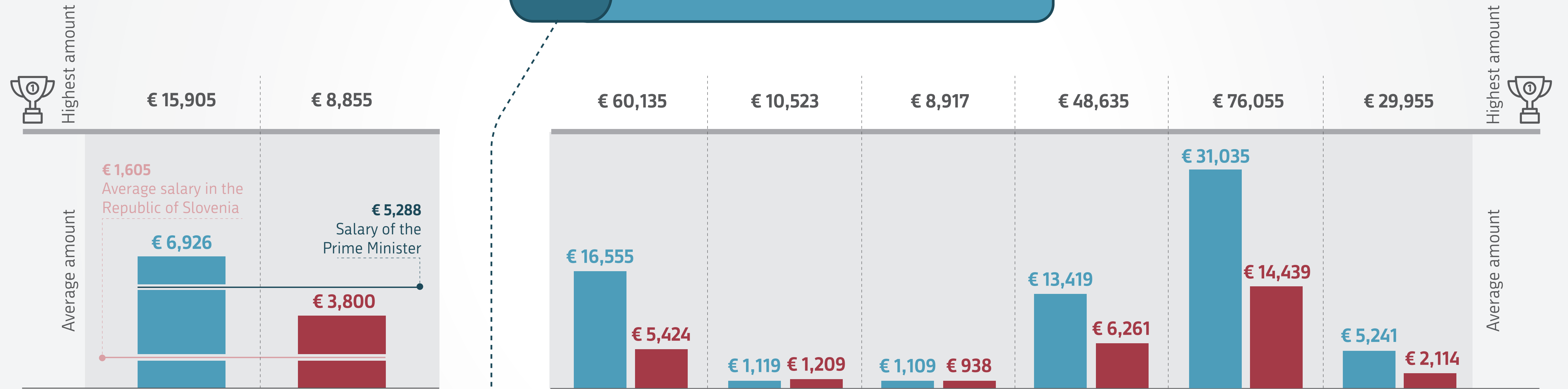


Annual incomes

$$(12 \text{ months} \times \text{1}) + \text{2} + \text{3}$$

Companies owned by the Republic of Slovenia ■
 Companies owned by local self-governments ■

- 1 Basic monthly payment** ← **2 Additional annual incomes**



3 Benefits



Supplemental social security, the use of a company car for private purposes, medical examinations for managers, liability insurance, the use of credit cards, representation expenses, etc.

* Presented are average gross payments in the period 2016-2017. The share (in %) of companies with adopted remuneration practices is shown in brackets.

ARRANGEMENTS PERTAINING TO REMUNERATION OF MANAGERS



Unfamiliarity with the current situation

- No **reliable data** on remuneration in all companies with the ownership held by the Republic of Slovenia and local self-governments
- No **monitoring of effects** of existing regulations



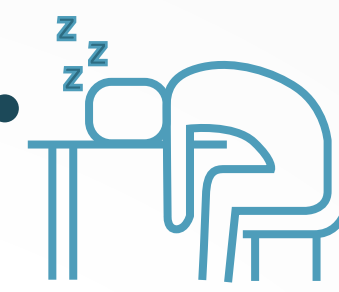
Absence of strategy

- **Strategic objectives** with measures for the achievement thereof not defined
- Objectives only **indirectly** specified in regulations which are **non-harmonised**



GOVERNMENT

NOT EFFICIENT



Inaction regarding the management of companies owned by the State

- No clear **reasons** for selecting the companies managed by the Government itself
- Lack of **monitoring and directing** of remuneration policies
- Lack of remuneration policies for companies excluded from ZPPOGD (SDH and KAD)
- Not established why SDH **does not fully implement** ZSDH-1

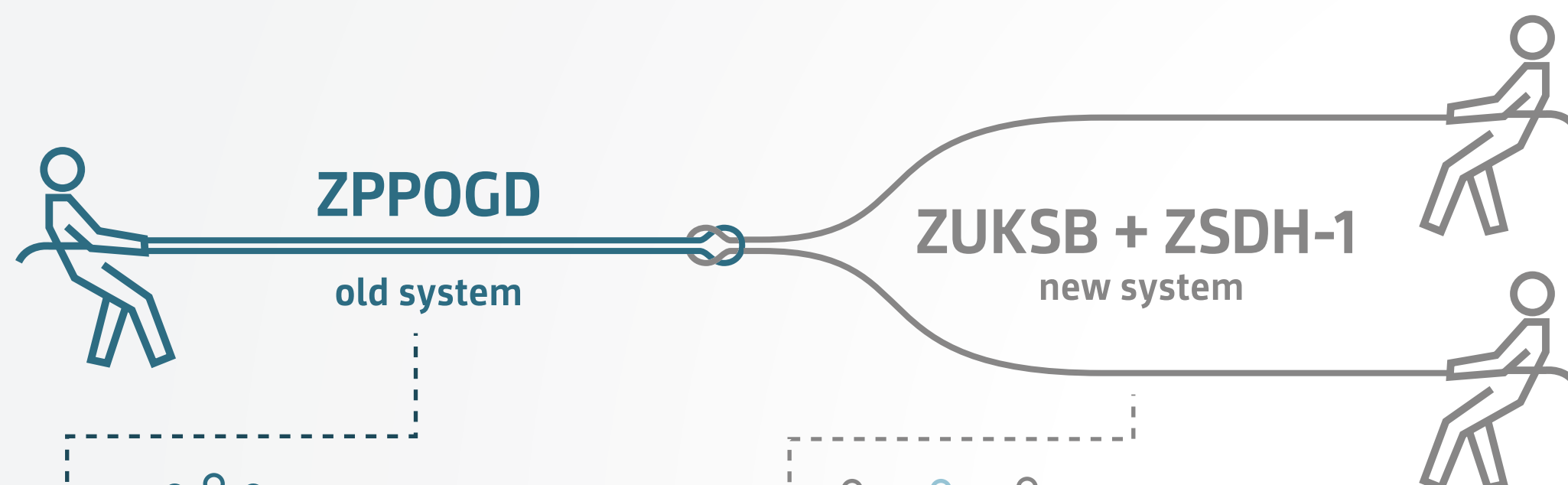


Inconsistent legislation

- ZPPOGD **not updated** despite its obsolescence and deficiencies
- Exemptions from ZPPOGD are **questionable** and only **partially implemented** (DUTB)
- **Scope** of adverse effects of ZPPOGD not known
- **Delay** in implementing Shareholder Rights Directive II



Ambivalence of the legislation



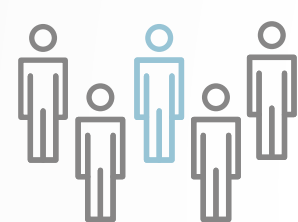
Unified system of limitations pertaining to remuneration for all managers of companies majority-owned by the State and local self-governments



Austerity due to recession



Preventing **excessively high** payments



Exceptions from the limitations pertaining to remuneration of managers of SDH, DUTB and KAD

attracting and motivating highly qualified staff?



Different remuneration policies for companies administered by SDH

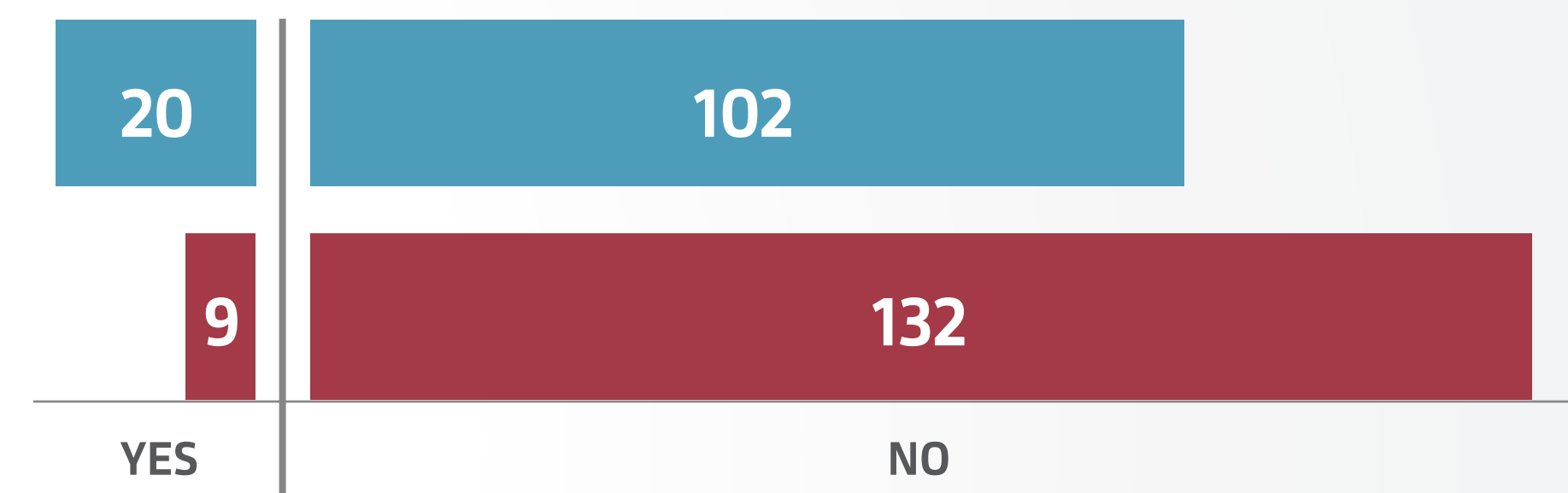
abolition of adverse effects of limitations according to ZPPOGD?



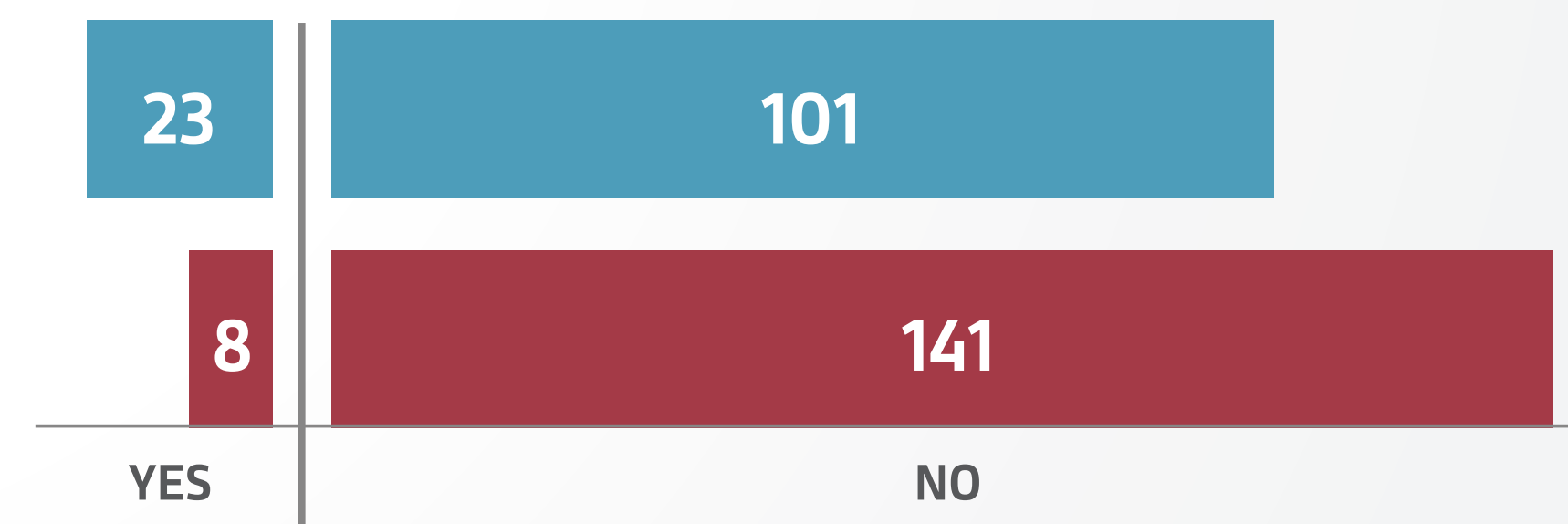
Adverse effects of limitations according to ZPPOGD?

Responses of companies to **online survey**

Has ZPPOGD reduced the possibilities of companies to attract expert managers?



Has ZPPOGD reduced the possibilities of companies to allocate performance bonuses to managers?



■ Companies owned by the Republic of Slovenia
■ Companies owned by local self-governments

SUPERVISION OVER REMUNERATION OF MANAGERS IN LINE WITH ZPPOGD

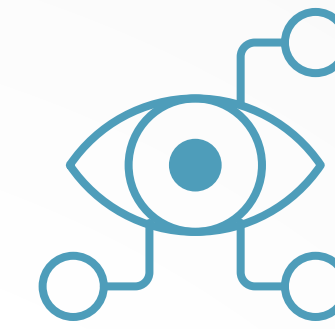

potential overpayment
€ 1,943,780


Unrecognised breaches and anomalies
 Findings of the **online survey**



NOT EFFICIENT

Remuneration	Type of breach of ZPPOGD and anomalies	No. of companies
Basic payment	✘ Legislative maximum exceeded	12
	✘ Only the highest prescribed multiple used	125
Variable remuneration	✘ Legislative maximum exceeded	18
	✘ No criteria or with 1 criterion	23
	✘ No criteria on corporate social responsibility	114
Severance pay	✘ Legislative maximum exceeded	5
Bonuses and labour law remuneration (annual leave allowance, long-service benefits, etc.)	✘ Legally inadmissible	48 to 231
Other	✘ Providing benefits without rules	93
	✘ Loans granted to managers – amounts?	1



Inappropriate organisation

- ✘ **Deficient** internal regulation on supervision
- ✘ **Risk register and records of breaches** not existing
- ✘ **Incomplete list** of liable companies
- ✘ **Few and not published** opinions on interpretation of legislation



Weaknesses in implementation

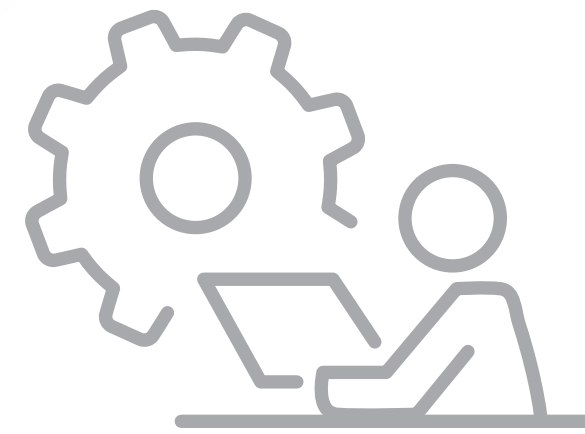
- ✘ Missing contracts with managers and lack of **review** of contracts
- ✘ **No evidence on reviews** of compliance of contracts with ZPPOGD, existing evidence are **poor**
- ✘ No **misdemeanour proceedings** against supervisors
- ✘ No demands for the **recovery of sums overpaid**
- ✘ Delays when reviewing contracts up **to 6 months**

REMUNERATION OF MANAGERS IN COMPANIES ADMINISTERED BY SDH



Inadequate monitoring of remuneration policies

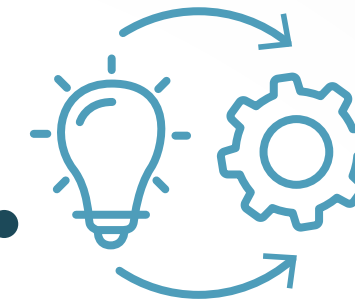
- ➖ Not **all data available** on amounts and types of remuneration of managers
- ➖ Lack of data on breach of ZPPOGD by the **supervisors** appointed/dismissed by SDH
- ➖ Lack of data on remuneration of managers in **companies established abroad**



SDH

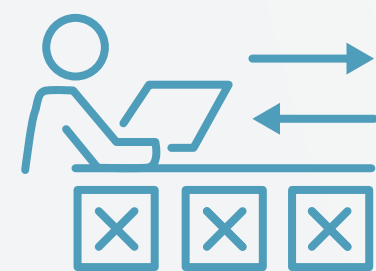


PARTIALLY EFFICIENT



Unfamiliarity with the current situation and not implementing ZSDH-1

- Developed only **common bases** for different remuneration policies from ZPPOGD
- ➖ Lack of thorough **analysis of the facts** and absence of defining **adverse effects of ZPPOGD**
- Common bases adopted only as **working documents and without alignment with the Government**



Lack of directions pertaining to remuneration policies

- ➖ Absence of determining potential **anomalies** in **implementing ZPPOGD** and additional guiding of companies
- ➖ No directions for criteria of variable remuneration in order to better follow the **objectives of the State**

! Consequences

6 years after the adoption of ZSDH-1 different remuneration policies from ZPPOGD were not adopted not even for one company owned by the State

RESULTS OF THE AUDIT AND WAY FORWARD

1 Implementing measures and recommendations of the Court of Audit

GOVERNMENT



Analysis of remuneration position and **effects** of the regulations



Updating and harmonising contradictory **regulations**



Respecting ZPPOGD in companies **DUTB, SDH** and **KAD** or adopting other remuneration policies



Justifying which companies owned by the State can be managed by the Government

MGRT



Providing **reliable list** of companies liable according to ZPPOGD



Receiving contracts from all companies and **taking action** due to infringements



Examining the **correctness of the interpretation of ZPPOGD** on annual leave allowance, long-service benefits, solidarity receipts, etc.

SDH



Obtaining **rules and guidelines on bonuses**



Data on remuneration of managers of **companies established abroad**



Unifying criteria of variable remuneration of directors and **considering objectives of the State**



2 Implementing the strategy on investment management of the State

- **Efficient privatisation** of non-strategic companies carrying out mainly market activities
- Separating functions of the State related to public authority and ownership at companies SDH, DUTB and KAD and limiting indirect impacts on **recruitment and management** of companies
- **Economic management** of companies while following economic and strategic objectives of the State

3 Extending and updating the strategy

- **Strategy** for management and remuneration of managers in **companies owned by local self-governments**
- **Monitoring** implementation of the remuneration policies in companies owned by the State and local self-governments and **updating** the strategies