





## **Mission**

*The mission of the Court of Audit is to inform the public about important audit findings from audits of state bodies and other users of public funds in a timely and objective manner. It provides recommendations to state bodies and other users of public funds for the improvement of their operations.*



# **Annual Report 2010**

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## KEY RESULTS

- **69** ISSUED AUDIT REPORTS
- **21** ISSUED POST-AUDIT REPORTS
- REVIEW OF OPERATIONS OF **125** AUDITEES
- **260** RECOMMENDATIONS PROVIDED TO USERS OF PUBLIC FUNDS
- **63** ADEQUATELY IMPLEMENTED CORRECTIVE MEASURES BY USERS OF PUBLIC FUNDS
- REQUIREMENTS AND RECOMMENDATIONS TO AMEND THE ACTS AND OTHER REGULATIONS
- **162** WRITTEN RESPONSES TO THE QUESTIONS OF USERS OF PUBLIC FUNDS
- ACTIVE INTERNATIONAL COOPERATION
- COOPERATION WITH THE NATIONAL ASSEMBLY

## INTRODUCTION

For the Court of Audit of the Republic of Slovenia, the year 2010 represents the fourth year of the implementation of its Strategy 2007-2013. Therefore the annual report reflects the achievements of those strategic objectives.

The Court of Audit continues with its appropriate and efficient work by responding to the public demands and by selecting relevant audits. In 2010, the Court of Audit received 409 initiatives for the implementation of audits, which is almost a half more than in 2009, when it received 274 initiatives. There were 24 audits completed that in accordance with regulations were mandatory, 20 audits were carried out on the basis of the assessed risks, and 19 audits were implemented on the basis of the received initiatives and current issues related to public sector. 27 percent of all completed audits thus reflect the prompt response to the initiatives of the public respectively to the current situation in the public sector. This share is significantly higher than in the year 2009, when it amounted to 17 percent.

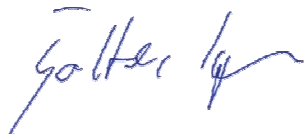
In 2010, the Court of Audit issued 69 audit reports that considered the operations of 125 auditees. Among the auditees were all the ministries, the Government, all governmental services, subordinate bodies, the Health Insurance Institute of Slovenia, the Pension and Disability Insurance Institute of Slovenia, 20 municipalities, 44 public institutes, 13 public companies, 7 funds, 11 agencies and foundations as well as 4 auditees of other legal forms. The Court of Audit issued 260 recommendations. In the year 2010, the share of all performance audit reports was 30.4 percent while in the year 2009 it was 49.3. This reduction is a consequence of a large number of mandatory regularity audits of election campaign organisers and particularly unexpectedly large number of referendum campaign organisers, which together present almost a third of all reports issued in 2010 (30.0 percent). Performance audits were audits of operations of non-commercial public service providers, commercial public service providers, individual ministries and other users of public funds.

One of the tasks of the Court of Audit is to council to users of public funds on public finance issues and to organise trainings for users of public funds in order to clarify the sound financial management. Therefore the representatives of the Court of Audit participated at various seminars, conferences and workshops with their expert inputs from various fields of public finance.

In 2010, the Court of Audit continued with its best practice: to develop questionnaires for the members of the Commission for Public Finance Control of the National Assembly of the Republic of Slovenia in considering performance audit reports and in this way to promote the efficiency of their meetings.

In 2010, five auditors of the Court of Audit attended the training and were awarded the title state auditor, and the same number of auditors was awarded the title certified state auditor.

Experts of the Court of Audit actively participate with their inputs in the international working groups on state auditing. Namely, they exchange their experience and thus improve the quality of audit reports and promote coordination of audit methodology at the international level. The international cooperation is becoming stronger also due to the implementation of joint audits carried out by the Court of Audit and other Supreme Audit Institutions.

A handwritten signature in blue ink, appearing to read 'Šoltes I.' with a stylized flourish at the end.

Dr Igor Šoltes  
President of the Court of Audit



## POWERS

The Constitution of the Republic of Slovenia defines in Article 150 that the Court of Audit is the highest body for supervising state accounts, state budget and all public spending. The Court of Audit is independent in performance of its duties and bound by the Constitution and the laws.

The powers of the Court of Audit are provided for in the Court of Audit Act, namely to audit operations of users of public funds and to provide advice to them. The Court of Audit by its independence and expertise not only complies with its statutory obligations in a timely and quality manner but by recognising material risk areas in the public sector, it also tries to promote regularity, efficiency, effectiveness and economy among users of public funds.

## OBJECTIVES

*The mission of the Court of Audit is to inform the public about important audit findings from the audits of operations of state bodies and other public funds users in a timely and objective manner. In addition, by drawing on its experience and expertise the Court of Audit delivers best practice advice to state bodies and other users of public funds on how to improve their financial management. By disclosing irregularity as well as inefficiency, ineffectiveness and uneconomy, the Court of Audit warns about the responsibility of state bodies and holders of public functions and thus contributes to improvements in the welfare of the citizens of the Republic of Slovenia and the European Union.*

In 2006, the Court of Audit of the Republic of Slovenia adopted the Strategy for the period 2007-2013; the strategic objectives are:

Objective 1: To report to the National Assembly and the public on the results of auditing the use public funds in a timely and quality manner;

Objective 2: To react efficiently to changes in the environment and to the public's requirements and interests;

Objective 3: To benefit the public sector by implementing audits and to contribute to the reduction of irregularity as well as inefficiency, ineffectiveness and uneconomy in the operations of users of public funds;

Objective 4: To further increase the advisory role of the Court of Audit;

Objective 5: To enhance the capacity and skills of the employees of the Court of Audit and to continuously provide for their training and professional qualifications;

Objective 6: To continually improve the communication strategy and to strengthen the cooperation with others;

Objective 7: To further improve the institution's work organisation and management.

These strategic objectives were considered in the Annual work programme for the performance of audit responsibility for 2010.

# ATTAINMENT OF OBJECTIVES

## Strategic objective 1

### To report to the National Assembly and the public on the results of auditing the use public funds in a timely and quality manner

In accordance with Article 25 of the Court of Audit Act, the Court of Audit must annually audit:

- the regularity of the implementation of the state budget (regularity of Government operations);
- the regularity of operations of the public institute of health insurance;
- the regularity of operations of the public institute of pension insurance;
- the regularity of operations of a suitable number of urban and other municipalities;
- operations of a suitable number of commercial public service providers;
- operations of a suitable number of non-commercial public service providers.

Apart from the above listed mandatory audits, the Court of Audit endeavours to implement as many other audits as possible in order to provide the National Assembly and the interested public with timely, reliable and quality information on financial operations, task implementation, achievement of objectives and results, management and internal control.

In 2010, the Court of Audit was carrying out 141 audits and issued:

- 69 audit reports - one of them was a joint international audit report,
- 21 post-audit reports,
- reports on reviews of the annual reports on the financial management of political parties,
- 4 reports on pre-audit enquiry,
- 72 draft audit reports,
- 71 proposed audit reports.

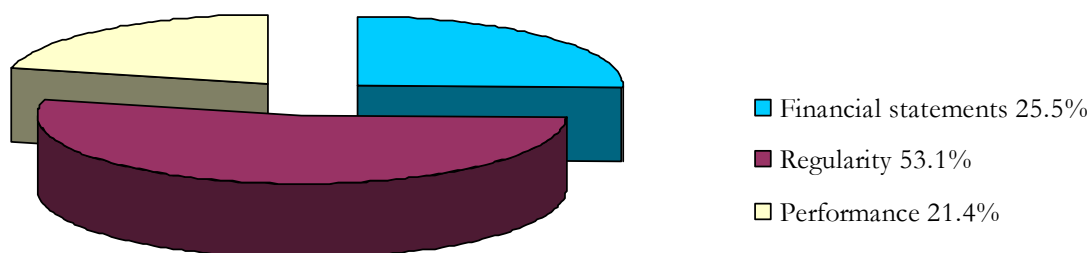
## Types of audits

Audits are classified according to the objectives set by the Court of Audit. In 2010, the following audit objectives were defined:

- to express an opinion on financial statements;
- to express an opinion on the compliance with the regulations; and
- to express an opinion on the efficiency, effectiveness or economy of operations of users of public funds.

Figure 1 illustrates types of audits for which audit reports were issued in 2010.

Figure 1: Types of audits according to audit objectives



The Court of Audit also implements audits where it simultaneously expresses an opinion on two of the above mentioned objectives. In 2010, out of 69 completed audits 21.4 percent of them were performance audits, which is just above 10 percent less than in the year 2009, mainly on the account of the implementation of mandatory regularity audits of organisers of election and referendum campaigns. In 2010, again the largest share of audits was represented by regularity audits (as an individual objective respectively one of two objectives), i.e. 53.1 percent of all audits. This share is comparable to the year 2009, when it was 45.1 percent. There were no audits with a single objective to express an opinion on financial statements, rather this objective was met along with another audit objective (either performance or regularity). Such audits represented 21.4 percent of all audits, which is fully comparable to the year 2009, i.e. 21.5 percent.

In 2010, as much as 45 audits (12 more than in the previous year) respectively more than half of all audits (65.9 percent) had two audit objectives, namely to express an opinion on financial statements and on the regularity of operations respectively to express an opinion on the regularity as well as on the efficiency, effectiveness and economy of operations. Among the audit reports issued in 2009, there were 47.8 percent of them that had two audit objectives.

In 2010, there were 21 audits completed that had the objective to assess the efficiency, effectiveness or economy of operations. Out of them 18 audits were exclusively performance audits while three audits also had the objective to express an opinion on the regularity of operations. Performance audits were audits of operations of non-commercial public service providers, commercial public service providers, individual ministries and other users of public funds. Such audits represented 30.4 percent of all reports issued in 2010, which means that the share from the year 2009, i.e. 49.3 percent, was reduced by a fifth. This is mainly a consequence of a large number of mandatory regularity audits of election campaign organisers and particularly unexpectedly large number of referendum campaign organisers.

## **Timeliness and quality of audit reports**

Timeliness of an audit report is the most important and easy measurable element in a mandatory regularity audit of the implementation of the state budget, since the time limit for its completion is defined by the Public Finance Act. It is also the most extensive audit of the Court of Audit. Therefore its implementation and timeliness were given a lot of attention and audit work. Audit report on the proposal of the annual financial statement of the state budget for 2009 was issued within the time limit defined by the Public Finance Act.

In the year 2010, eight audit reports on the regularity of financing the election campaign for electing Slovenian Members to the European Parliament were issued as well as 13 audit reports on the regularity of financing the referendum campaign for the referendum on the arbitration agreement between the Republic of Slovenia and the Republic of Croatia. These are mandatory audits, for which audit reports were issued prior to the defined time limit, 10 months before the elections respectively referendum took place. This means that the objective of timeliness of mandatory audits was met in its entirety or even beyond.

Time limits for the issue of other mandatory audit reports are not defined, nevertheless the Court of Audit endeavours to issue audit reports of interest for the public; this is defined in more detail under the strategic objective 2, which is discussed in the continuation of this report.

Quality of audit reports is provided by the internal quality assurance process and statutory procedures. Therefore each detailed audit plan, draft audit report and proposed audit report is reviewed by the advisers to the Deputy Presidents and, where necessary, by the legal department. They mainly review compliance with audit standards and regulations. Before a final audit report is signed by the President, it is also reviewed by the editorial board for linguistic, legal and audit appropriateness. The quality assurance is promoted also by a clearance meeting as defined by the Court of Audit Act. At the clearance meeting, an auditee may file an objection against any audit finding in a draft audit report or give additional explanations. No clearance meeting is necessary if the auditee notifies the Court of Audit in writing that no finding in the draft audit report is challenged. If not successful at the clearance meeting, the auditee can file an objection to the proposed audit report. The Senate of the Court of Audit, composed of the President and both Deputy Presidents, shall decide on any disputed finding in the proposed audit report and their decision is final.

## **Strategic objective 2**

### **To react efficiently to changes in the environment and to the public's requirements and interests**

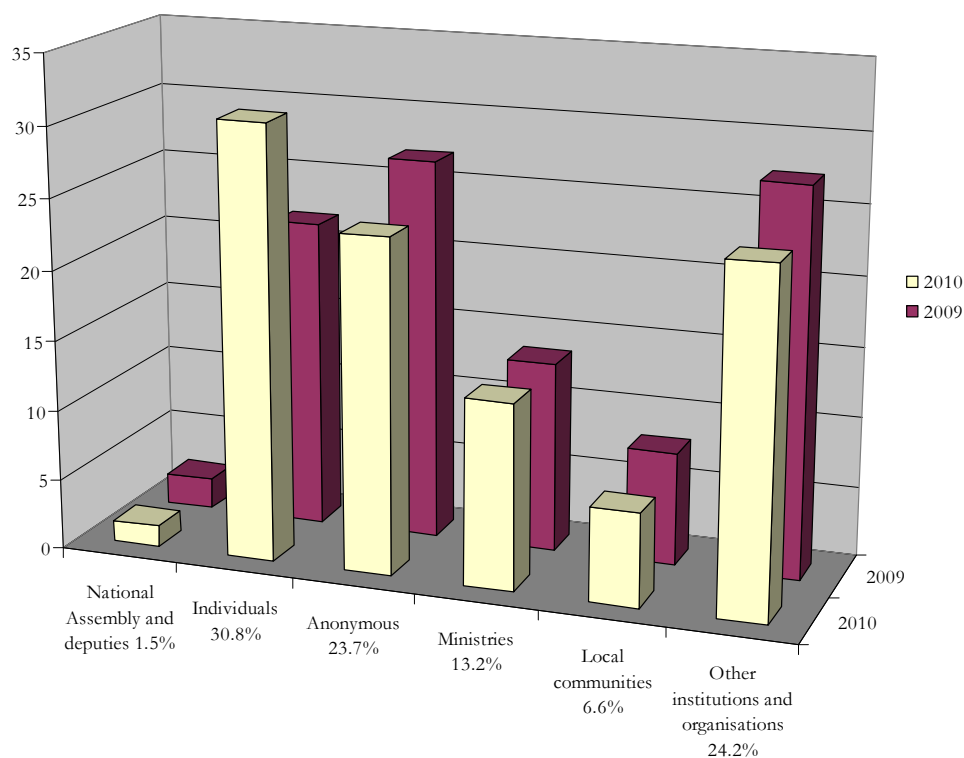
Every year the Court of Audit designs a programme for the performance of audit responsibility, which indicates audits that are planned for the year concerned. When defining the Annual work programme, the Court of Audit, aside from its statutory obligations, considers the materiality of users of public funds as well risk of irregular or unsound operations in respect of budget volume, control over the use of public funds, possible outputs of audits and received initiatives of the National Assembly, individuals and current media publications. Since the circumstances alter during the Annual work programme implementation, the Court of Audit corresponds to those changes and revises the Annual work programme if necessary.

Namely, in 2010 the Court of Audit additionally included 26 audits in the Annual work programme as the response to new circumstances, which is five less than in 2009; and 11 audits were deleted from the work programme, which is 8 less than in 2009.

## Received initiatives for auditing

The Court of Audit received 409 initiatives for the implementation of audits in 2010, which is 49.3 percent more than in 2009, when it received 274 initiatives. Most of initiatives were made by individuals respectively groups of individuals, i.e. 126 initiatives, which is more than twice as much as in the year before (60 initiatives in 2009). Different legal entities (companies, institutions, public companies, institutes, societies and associations) made 98 initiatives, which is 23 more than in 2009. This number also includes initiatives by the Prosecution Service and Ombudsman, who made one initiative each, as well as 43 initiatives by the Commission for the Prevention of Corruption (30 initiatives in 2009). They are followed by anonymous initiatives, 97 of them, which means 23 more than in the previous year. The National Assembly made six initiatives while the National Council made one. Governmental offices, ministries and subordinated bodies of the ministries made 54 initiatives (37 in 2009), including six initiatives made by Tax Administration of the Republic of Slovenia and 12 initiatives made by the Police. Local community authorities delivered 27 initiatives (five more than in 2009). The number of initiatives related to proposals for auditing local communities represents almost a half of all initiatives received, precisely as many as 186 initiatives. The share of received initiatives in 2010 and comparison to the year before is illustrated in Figure 2.

Figure 2: Initiatives for the implementation of audits by submitters in 2010 and comparison to 2009



In 2010, there were 24 audits completed that in accordance with regulations were mandatory, 20 audits were carried out on the basis of the assessed risks, and 19 audits were implemented on the basis of the received initiatives and current issues related to public sector. 27 percent of all completed audits thus reflect the prompt response to the initiatives of the public respectively to the current situation in the public sector. This share is significantly higher than in the year 2009, when it amounted to 17 percent.

### Pre-audit enquiries

The Court of Audit Act provides for the conduct of a pre-audit enquiry. The Court of Audit may, prior to the commencement of an audit, demand the user of public funds to provide all information which they consider relevant to their audit, including bookkeeping documents, data and other documentation, and make other enquiries necessary for the planning or performing the audit. Due to urgent issues arising from the activities of public sector, the Court of Audit in 2010 initiated three pre-audit enquiries and issued one report on the pre-audit enquiry implemented in 2009. The reports on the implemented pre-audit enquiries include risk assessments and proposals whether audits should be included or not in the Annual work programme for the performance of audit responsibility of the Court of Audit.

### Initiatives received from the National Assembly

In 2010, the Court of Audit received six initiatives made by deputies of the National Assembly respectively Commission for Public Finance Control, which is the same number as in 2009.

Table 1: Proposals for the implementation of audits, received in 2010 from the National Assembly

Seq. No.	Submitter	Description of proposal
1	Commission for Petitions, Human Rights and Equal Opportunities	Health Centre Audit / Audit of the Municipality of Slovenj Gradec - charging rents for concessionaires; case: Gynaecology Practice Štorklja, d. o. o.
2	Committee on Agriculture, Forestry and Food	Regularity and performance audit of operations of the Lipica Stud Farm public institute as from the year 2006, with special emphasis on the transfer of funds to the company Lipica Turizem, d. o. o.
3	Deputy group of Slovenian People's Party	Audit of the public tender of the Ministry of Education and Sport for co-financing investments in sport infrastructure; case: Stožice Sports Park
4	Committee on Labour, Family and Social Affairs	Audit of monitoring the implementation of corrective measures under the audit report Regularity of operations of the Foundation for the Financing of Organisations of the Disabled and Humanitarian Organisations in the Republic of Slovenia from the year 2009
5	Commission for Public Finance Control	Audit of monitoring the implementation of corrective measures under the audit report Management of separately

		collected municipal waste from the year 2009
6	Inquiry Commission with President Melita Župevc, National Assembly deputy	Regularity and performance audit of operations of Pošta Slovenije, d. o. o., with companies Zame-tek, d. o. o., and Progresija, d. o. o., regarding the distribution of free newspapers Ekspres and Slovenski tednik; Act on former operations and Act on planned operations of Pošta Slovenije, d. o. o., regarding the distribution of unaddressed publications

The Court of Audit included the initiatives made by deputies of the National Assembly respectively Commission for Public Finance Control in 2009 in the Annual work programme for the performance of audit responsibility for the year 2010, as provided for in the second paragraph of Article 25 of Court of Audit Act. It is necessary to stress out that the realisation of the initiatives made by deputies of the National Assembly respectively Commission for Public Finance Control is in different stages of audit procedure, whereby some audit reports based on the initiatives shall be issued in 2011. The initiatives made by deputies of the National Assembly respectively Commission for Public Finance Control in 2010 were considered by the Court of Audit when adopting the Annual work programme for the performance of audit responsibility for the year 2011.

### Strategic objective 3

#### **To benefit the public sector by implementing audits and to contribute to the reduction of irregularity as well as inefficiency, ineffectiveness and uneconomy in the operations of users of public funds**

The Court of Audit contributes to the reduction of irregularity as well as inefficiency, ineffectiveness and uneconomy of operations of users of public funds in several ways. As defined by the Constitution, the Court of Audit is the highest body for supervising state accounts, state budget and all public spending. In implementing audits, the Court of Audit actively promotes improvements of operations of users of public funds by disclosing irregularity as well as inefficiency, ineffectiveness and uneconomy in audit reports and demanding corrective measures and/or the establishment of such supervision system that shall prevent any similar occurrences in the future.

The Court of Audit also promotes the improvements of operations by advising and training that shall be presented in more detail under the strategic objective 4: to further increase the advisory role of the Court of Audit.

Benefits for the public sector are measurable and not measurable. The measurable benefits are savings of public funds, which are based on audit findings and other measures of the Court of Audit; not measurable benefits are improving knowledge and awareness of the importance of regularity as well as efficiency, effectiveness and economy of operations and responsibilities of the authorised persons. In this way the Court of Audit influences users of public funds to bring more regularity as well as efficiency, effectiveness and economy into their operations.



## Savings

One of the Court of Audit's annual objectives is to assess savings or other measurable outcomes in two selected audits. In the continuation of the report the assessed outcomes are presented for six audits.

### ***Regularity audit of accounting and paying concession fee and water reimbursement for the exploitation of the Lower Sava River energy potential in the period from 1 January 2006 to 31 August 2009***

On the basis of established irregularities during the performance of the regularity audit of accounting and paying concession fee and water reimbursement for the exploitation of the Lower Sava River energy potential in the period from 1 January 2006 to 31 August 2009, the Court of Audit demanded the correction of concession fee and water reimbursement calculations as well as the calculation of default interest,

on the basis of which there came to an additional contribution to the budget of the Republic of Slovenia and budget of municipalities in the amount of EUR 172,760, i.e.

- Holding Slovenske elektrarne, d. d., due to 16,728.593 megawatts of non-calculated electric power production in the year 2006 contributed to budgets additional EUR 74,693 and default interest in the amount of EUR 29,189;
- the concessionaire Hidroelektrarne na Spodnji Savi, d. o. o. (Hydroelectric power plants on the Lower Sava River), due to late payment of concession fee had to pay default interest in the amount of EUR 4,201;
- the Infra company had to pay water reimbursement for the use of 53,448 cubic metres of alluvial deposits in the year 2005 in the amount of EUR 64,677.

The Court of Audit demanded from the Ministry of the Environment and Spatial Planning to consider the adequacy of the determined potential energy of water for a particular hydroelectric power plant as the basis for the calculation of water reimbursement. The Ministry of the Environment and Spatial Planning prepared bases for the appropriate calculation of water reimbursement. It established that in the period between January 2006 and August 2009 the person liable for the Vrhovo hydroelectric power plant indeed failed to pay EUR 76,612 of water reimbursement, which represents 14.9 percent of the paid water reimbursement. This means actual savings on the basis of the performed audit. In the light of the fact that by obtaining an operating permit the payment of water reimbursement on the Lower Sava River is expected to be required in the next three years for three hydroelectric power plants, the Court of Audit estimates that it achieved potential savings for the next three years in the amount of approximately EUR 200,000<sup>1</sup>.

With the audit, the Ministry of the Environment and Spatial Planning was warned about the consequences

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<sup>1</sup> The estimation is based on the three-time value of the established irregularity in the amount of EUR 76,612, reduced by the estimated number of months prior to obtaining the operating permit as well as by the estimation of the increase at the second and third hydroelectric power plant with a higher potential energy of water.

of certain provisions of Waters Act and Act Governing the Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River, which cause unjustified reduction of concession fee and water reimbursement. Based on the appropriately changed legal bases, the concession fee per year will be at least EUR 202,000 higher<sup>2</sup>, while the increase of the annual water reimbursement will be EUR 340,000<sup>3</sup>. The Court of Audit estimates that with the audit it disclosed the potential contribution to the state budget by the hydroelectric power plants operating in 2009 at least in the amount of EUR 542,000 per year, i.e. EUR 1.626 million in the next three years.

The total value of actual and potential savings is thus EUR 2,075,372.

### ***Performance audit of the sale of share of company Splošna plovba, d. o. o., Portorož***

In carrying out the performance audit of the sale of share of company Splošna plovba, d. o. o., the Court of Audit established that with irregular transfer of the ownership of share in the company Splošna plovba to Slovenska odškodninska družba, d. d., (Slovenian Compensation Company - SOD), SOD achieved capital gain from the sale of 28.65 percent share in the amount of EUR 29,699,617. It recorded the entire amount as financial income from the shares in companies. Under the performance audit of operations of SOD in settling liabilities, the Court of Audit established that in accordance with the first point of the third paragraph of Article 3 of the Payment of Compensation to the Victims of War and Postwar Aggression Act (ZSPOZ) and in connection with Article 9 of the Slovene Compensation Fund Act (ZSOS) SOD would have to allocate capital gain from the gratuitously transferred assets to the settlement of statutory liabilities and not to show it as its gain. The Court of Audit therefore demanded this investment, together with the capital gain, be transferred to the State. State budget savings amount to EUR 29,699,617.

### ***Audit of the economy of operations of Družba za avtoceste v Republiki Sloveniji, d. d., Celje (Motorway Company in the Republic of Slovenia) in paying compensation and constructing Pluska–Ponikve motorway section overpass in the period from 1 January 2009 to 31 May 2010***

Under the audit of economy of operations of Družba za avtoceste v Republiki Sloveniji, d. d., Celje (DARS) in paying compensation and constructing Pluska–Ponikve motorway section overpass in the period from 1 January 2009 to 31 May 2010, the Court of Audit established irregularity and uneconomy in the payment of compensation and demanded the recovery of unduly paid compensation in the amount of:

- EUR 1.5 million of unduly paid compensation to the natural person who was not entitled to such compensation,
- EUR 333,333 of advance payment of income tax to the natural person,
- claim of the natural person on DARS for the payment of annual income tax of the natural person in

<sup>2</sup> The cessation of the use of transfer prices for the Boštanj and Blanca hydroelectric power plants represents the amount of EUR 202,000 for the year 2009.

<sup>3</sup> The determination of the regular potential energy of water of EUR 33,000 in 2009 for the Vrhovo hydroelectric power plant as well as the calculation based on the potential energy of water (and not on the operating permit obtained) for the Boštanj and Blanca hydroelectric power plants in 2009 amount to EUR 307,000.

the amount of EUR 209,191.

The recovered compensation may be reduced for costs recognised for company Avtotransport Kovačič (EUR 0.5 million for the construction of overpass and potential additional compensation for costs in case of somewhat longer distances), but only on the condition that the company Avtotransport Kovačič proves its compensation entitlement in accordance with the Spatial Planning Act.

Assuming that the estimated costs are actually incurred by the company Avtotransport Kovačič, there is a case of avoiding the payment of corporate income tax in the amount of at least EUR 200,000.

Savings for DARS thus amount to EUR 2,042,524, reduced for the potential compensation awarded to company Avtotransport Kovačič. Moreover, additional contributions to the state budget amount to at least EUR 200,000 of additional corporate income tax.

### ***Audit of the remediation of old burdens of industrial waste and unauthorised construction waste landfills in the period from 1 January 2004 to 31 December 2008***

Under this audit, the Court of Audit demanded from the Ministry of the Environment and Spatial Planning to call on the company Petrol, d. d. to prepare a remediation programme respectively programme of measures for the remediation of acid sludge landfills in Bohova and Studenci pri Mariboru. The Ministry of the Environment and Spatial Planning failed to comply, yet it called on the Inspectorate of the Republic of Slovenia for the Environment and Spatial Planning to implement corresponding measures after the time limit for the submission of a response report. The Court of Audit warned the Ministry of the Environment and Spatial Planning of its uneconomic use of EUR 5 million for the remediation of acid sludge in Pesnica, with co-financing all costs that exceeded the value of long-term ecological provisions established in the privatisation process of Petrol, d. d. Since Petrol, d. d. is a legal successor of the polluter, it should alone finance the remediation. Its position<sup>4</sup> that it is the State that should provide the entire financing expect when Petrol, d. d., has long-term provisions established, is wrong. The Court of Audit assessed that alone the implementation of this required corrective measure as regards imposing the responsibility for financing the remediation of acid sludge landfills in Bohova and Studenci on Petrol d. d. in accordance with the Environment Protection Act could lead to state budget savings in the amount of approximately EUR 10.6 million<sup>5</sup>.

In its audit ***Effectiveness of rural development policy in the Republic of Slovenia***, the Court of Audit assesses that the Ministry of Agriculture, Forestry and Food will by changing the share of co-financing projects of the third axis of the Rural development programme (RDP) from 50 to 85 percent and ensuring more timely preparation of time schedule for the publication of individual tenders enable better preparation of beneficiaries as well as improve the efficiency of the disbursement of EU funds under RDP 2007-2013.

<sup>4</sup> The Ministry of the Environment and Spatial Planning complied with this position in co-financing the remediation of the Pesnica landfill.

<sup>5</sup> The amount represents actual costs for the remediation of the Pesnica acid sludge landfill, increased by 12 percent arising from the comparative cost estimate for the remediation of all landfills from the Investment documentation for the final remediation of these landfills (Hidroinženiring, d. o. o., February 2004).

In case of new natural disasters, potential savings will also be brought by modifications in the operations of persons responsible for the prevention of occurrence and elimination of consequences of natural disasters, whom the Court of Audit in the framework of its audit *Aid of the Republic of Slovenia in Case of Natural Disasters* submitted several recommendations.

## Corrective measures

The user of public funds whose operations have disclosed irregularity, inefficiency, ineffectiveness or uneconomy, must submit to the Court of Audit, unless it eliminates them during the audit procedure, its response report with corrective measures disclosed. The purpose of corrective measures is to eliminate irregularity respectively inefficiency, ineffectiveness or uneconomy and improve operations in the future. Time limits for the submission of a response report are in the range between 30 and 90 days, depending on the complexity of corrective measures. For some audits issued at the end of 2010 the deadline falls into 2011. Auditors of the Court of Audit assess disclosed corrective measures in the so called post-audit reports. Most of the audited users of public funds present evidence in their response reports that appropriate corrective measures for the elimination of disclosed irregularities have been taken.

The Court of Audit may review the corrective measures by undertaking a new audit to verify the credibility of a response report. The objective of such audit is to express an opinion on the credibility of a response report.

Some corrective measures are such that demand from the audited user of public funds to disclose at least the initiation of activities that shall, when properly implemented, give adequate results after a longer period of time. Whether the audited user of public funds has followed the recommendations of the Court of Audit, can be assessed in detail only after certain period of time by introducing a new audit.

The Court of Audit assesses the adequacy of corrective measures in a post-audit report. If the Court of Audit estimates that there is no adequate elimination of disclosed irregularity respectively inefficiency, ineffectiveness or uneconomy, it may issue a call for remedial action, addressed to a relevant authority which the Court of Audit considers to be able, within the scope of its powers, to take action against the user of public funds. The authority to which the call for remedial action was delivered shall submit to the Court of Audit a report on the actions taken or an explanation of the omission of action within 30 days after receipt of the call. In case of inadequate elimination of material irregularity respectively inefficiency, ineffectiveness or uneconomy, the Court of Audit shall notify the National Assembly and issue a call for the dismissal of the officer responsible and a press release.

In 2010, the Court of Audit demanded response reports from almost a half of the audited users of public funds (43.5 percent), which is comparable to the year 2008, when such demands were made to 49.0 percent of all audited users of public funds. In comparison to the year 2009, this share increased by more than 14 percent in 2010.

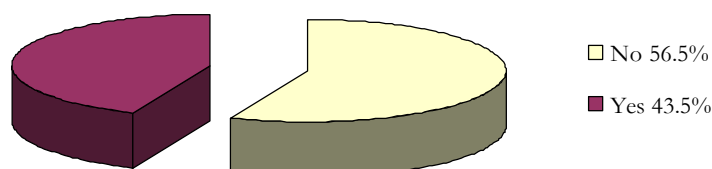
Audited users of public funds disclosed 89 corrective measures in their response reports. The Court of Audit issued 21 post-audit reports in 2010, where it assessed 82 corrective measures: 63 measures were adequate, 16 partially adequate and 3 inadequate. Due to inadequate corrective measures, the Court of Audit issued a decision on violation of the requirement for operational efficiency to six auditees (two less than in the previous year). Therefore it issued five calls for remedial action to the relevant authorities

which the Court of Audit considered to be able, within the scope of their powers, to take action against users of public funds. At one occasion inadequate corrective measures were assessed in case of material irregularity. The Court of Audit thus issued a decision on serious violation of the requirement for operational efficiency and issued a call for a dismissal of the officer responsible.

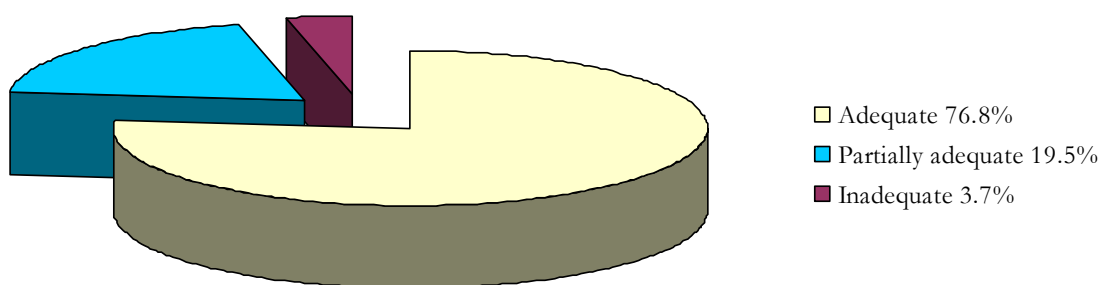
Proportions regarding requests for the submission of response reports in the issued audit reports and proportions regarding the assessment of the adequacy of adopted corrective measures in the issued post-audit reports are illustrated in graphs of Figure 3.

Figure 3: Proportions regarding requests for the submission of response reports in the issued audit reports and proportions regarding the assessment of the adequacy of corrective measures in the issued post-audit reports

Requests for the submission of response reports in the issued audit reports



Assessment of the adequacy of corrective measures in the issued post-audit reports



## More important requests for corrective measures, recommendations and their implementation

Corrective measures and recommendations, imposed respectively submitted to the audited users of public funds for the elimination of irregularities or improvement of operations, were mainly related to:

- irregularities in the field of transfers,
- research activities,
- motorway maintenance,
- determination of the level of salaries at the Pension and Disability Insurance Institute of Slovenia and Health Insurance Institute of Slovenia,
- operations of the Foundation for the Financing of Organisations of the Disabled and Humanitarian Organisations in the Republic of Slovenia,
- pricing and charging for care services in retirement homes,
- remediation of burdens of industrial waste and unauthorised construction waste landfills,
- concession fee and water reimbursement for the exploitation of the Lower Sava River energy potential,
- sale of share of company Splošna plovba, d. o. o., Portorož,
- compensation payment and construction of Pluska–Ponikve motorway section overpass,
- Lisbon strategy in the field of research and development,
- other fields.

## Irregularities in the field of transfers

In auditing the proposal of the annual financial statement of the state budget for 2009, the Court of Audit called on the Government of the RS to present for each of established irregularities in the field of transfers the entire process that led to the payment where irregularity was established, define the corresponding point in the process, establish the reason for the irregularity, assess based on risk register potential consequences for the achievement of objectives and present the adopted measures (internal control), which will prevent the occurrence of similar events in the future. The Court of Audit recommended to the Government of the RS to modify the proposal of the annual financial statement of the state budget for 2008 before resubmitting it to the National Assembly of the Republic of Slovenia for approval, by recording transactions related to the acquisition of business shares in the company Rimske terme, d. o. o., Rimske Toplice, i.e. increase in the income and expenditure accounts for 2008 capital income in the amount of EUR 1,000,000 as well as increase in the financial assets and liabilities account expenditure for increasing capital shares in the same amount.

## Research activities

The Court of Audit demanded from the Slovenian Research Agency (ARRS) to:

- conduct analyses to assess which research fields for the period from 2011 to 2015 will be given priority support considering economic aspect;
- eliminate disclosed conflicts of interest in allocating funds;
- in order to increase the impact of invested funds, establish a public register of co-financed research equipment and define in its regulations the obligation of equipment users to report on the availability

of equipment and report on a monthly basis on the actual use of equipment and the price for its use for researches of public institutes as well as interested companies;

- warn the competent proposer of the Research and Development Act about the necessary amendment of the Act, which should, aside from the already established possibility of complaint due to procedural reasons, provide for the protection of applicant rights in dealing with applications due to substantive reasons, by establishing an institute of ombudsman for the rights of applicants, i.e. rapporteur.

The Court of Audit submitted to ARRS the following recommendations:

- to increase in assessment procedures the share of assessors from the industry, which on the basis of researches conducted, patents filed and licenses obtained is the only one to be able to create new commercially attractive products of high added value;
- to require from applicants, before deciding on the allocation of funds, written research agreements, which are to be co-financed by the industry;
- to establish together with the Public Agency for Entrepreneurship and Foreign Investments and the Ministry of Higher Education, Science and Technology a common register of all co-financed programmes, projects and research equipment, and
- to limit tender access to applicants who failed to comply with obligations from previous tenders.

### **Motorway maintenance**

In its audit Motorway maintenance, the Court of Audit with a view to ensuring more economic motorway maintenance submitted to DARS the following recommendations:

- to prepare a document with a clear separation of regular and major maintenance, since some regular maintenance costs are paid from funds intended for major maintenance. Paying regular maintenance costs therefore means higher borrowing;
- to update the existing Road database (BCP) respectively keep adequate records to reveal the time of a particular major maintenance on a particular motorway section;
- to establish a BCP that will provide data on all works on a particular section and with the dTIMS\_CT programme enable a more appropriate and easier planning of major maintenance, whereby DARS is required to specify in more detail to what extent and how dTIMS\_CT solutions will be followed in drawing up an applicable major investment plan;
- to determine a vertical condition of road surface structure before carrying out major maintenance and to plan the maintenance on the basis of the determined condition. DARS should determine the vertical condition of road surface structure by appropriately analysing individual layers of the structure as well as
- plan and carry out regular and major maintenance by keeping total costs of maintenance providers and users to the minimum.

### **Determination of the level of salaries at the Pension and Disability Insurance Institute of Slovenia and Health Insurance Institute of Slovenia**

Both institutes were required to disclose in their response reports the elimination of irregularities as regards the determination of the level of salaries for the management and employees occupying the most responsible positions, which was too high. In the post-audit procedure, the implemented corrective measures were assessed as partially adequate, because the institutes adjusted salaries of civil servants

occupying the most responsible positions in accordance with provisions of the Public Sector Salary System Act only prospectively. They failed to disclose appropriate measures respectively action in line with Article 3.a of the stated Act, i.e. since the implementation of new salary regulations on 1 August 2008.

The Court of Audit therefore issued a decision on violation of the requirement for operational efficiency and called on the Council of the Pension and Disability Insurance Institute of Slovenia and Assembly of the Health Insurance Institute of Slovenia to adopt within the scope of their powers decisions and measures to provide for the implementation of all the activities required for the adjustment of operations in the field of salaries with regulations.

### **Operations of the Foundation for the Financing of Organisations of the Disabled and Humanitarian Organisations in the Republic of Slovenia**

Based on the audit performed, the Court of Audit demanded from the Foundation to implement corrective measures which would contribute to a more objective assessment and evaluation of applications and thus more transparent allocation of funds to organisations of the disabled and humanitarian organisations. The statement of corrective measures had to contain a plan of activities:

- for drawing up Instructions for the application of criteria, where the Foundation by applying expert criteria and standards would in practice provide for a more objective assessment and allocation of funds for social programmes to applicants, and
- for the preparation of annual policies and priorities for co-financing user investments, so as to ensure to applicants on the basis of expert criteria and standards a more objective assessment and evaluation of applications for investments.

The Court of Audit also submitted recommendations to contribute to the improvement of Foundation operations:

- to set in the Instructions for the application of criteria in assessing financially evaluated annual work programmes for the operations of organisations of the disabled and humanitarian organisations as well as in assessing and financially evaluating investments of the organisations concerned criteria for a more objective assessment and evaluation of applications, which will be used when allocating funds to users, by using a scoring system or some other appropriate method;
- to conduct with the help of experts analyses in the form of three to five-year evaluations, which the Foundation would use in making subsequent decisions, whereby it would verify with users, which set objectives and policies of the Foundation are more or less achieved, which are the problems to require the Foundation and societies to be more active in the future in providing help to users, i.e. help to the disabled as well as humanitarian help;
- to prepare new Rules on accounting and financial operations and above all establish guidelines and regulations for financial planning, administration, management and control of payment of Foundation expenditure;
- to prepare on the basis of good practice theses and expert grounds as to how users should submit better applications under future public tenders and improve reports on the actual use of allocated funds;
- to include in annual reports on the work and financial operations of the Foundation, aside from the annually approved and used funds, unused funds and consider this in the work of professional services, monitoring groups as well as in allocating funds to users;



- to introduce practice that the amended and adopted instructions in the framework of the applicable methodology for assessing and evaluating applications are attached as an integral part of public tenders.

In the post-audit procedure, the Court of Audit assessed that the corrective measures disclosed by the Foundation for the Financing of Organisations of the Disabled and Humanitarian Organisations in the Republic of Slovenia led to the implementation respectively initiation of procedures which will ensure the elimination of irregularities established in the audit report.

### **Pricing and charging for care services in retirement homes**

After the performed cross-sectional regularity audit of pricing and charging of care services in four public institutes practising institutional care of elderly persons, the Retirement Home Kranj had to disclose the elimination of irregularities in its response report:

- due to excessive charge of care allowances in part of the year 2008 - based on the calculation of actual overpayment by individual types of care, the Retirement Home had to inform payers of services about the findings and to agree on the method of the elimination of irregularities in charging care allowances respectively other services;
- in providing bases for pricing care services, it had to establish adequate accounting as regards allocation of costs, by defining in relevant internal regulations policies for the allocation of direct costs as well as specific keys for the allocation of indirect costs to bearers of costs.

The implemented measures were assessed as adequate.

### **Remediation of old burdens of industrial waste and unauthorised construction waste landfills**

The more important corrective measures by the Ministry of the Environment and Spatial Planning had to relate to the following:

- adoption of a plan of activities for drawing up the programme of remediation measures for the Globovnik landfill, which due to subsidiary obligation is under the authority of the State;
- call on the company Petrol, d. d., Ljubljana to prepare a remediation programme respectively programme of measures for the remediation of acid sludge landfills in Bohova and Studenci pri Mariboru, as well as on the company Snaga, javno podjetje, d. o. o., Maribor to carry out final remediation of the Metava hazardous waste landfill;
- adoption of a plan of activities to ensure that all operating landfills will obtain the necessary (environmental protection) permits respectively that all operating landfills will be required to provide financial security and to finance the implementation of environmental protection measures after the closure of the landfills concerned;
- adoption of a plan of activities with defined time limits and persons responsible for:
  - providing inspection of all landfills of old burdens of industrial waste, defined in the Resolution on National Environmental Action Plan;
  - including industrial waste landfills in regular annual plans of work of the Inspectorate of the Republic of Slovenia for the Environment and Spatial Planning;

- adopting a plan of activities for making inventory respectively establishing registers of unauthorised industrial waste considered old burden and of unauthorised construction waste landfills;
- making a proposal for appropriate definition of competences and responsibilities for the remediation of unauthorised waste landfills and adopting a simplified landfill remediation procedure;
- adopting a plan of activities for amending Operational programme of construction waste management, which will define:
  - possible methods for the remediation of construction waste landfills,
  - objectives and activities of managing unauthorised construction waste landfills,
  - content of plans for collecting, processing and disposing construction waste,
  - construction waste management strategy;
- adopting a plan of activities for the remediation of unauthorised construction waste landfills, for which the State is responsible either in the alternative or as the land owner.

The aforementioned requirements were mostly complied with, except as regards:

- calling on the company Petrol, d. d., Ljubljana to prepare a remediation programme respectively programme of measures for the remediation of acid sludge landfills in Bohova and Studenci pri Mariboru;
- adopting a plan of activities to ensure that all operating landfills, including inert waste landfills, will be required to provide financial security;
- making a proposal for appropriate definition of competences and responsibilities for the remediation of unauthorised waste landfills and adopting a simplified landfill remediation procedure as well as adopting a plan of activities for the implementation of this proposal in regulations, with defined activities, time limits and persons responsible;
- adopting a plan of activities with defined time limits for the remediation of unauthorised construction waste landfills, for which the State is responsible either in the alternative or as the land owner.

The Ministry of the Environment and Spatial Planning was thus issued a decision on violation of the requirement for operational efficiency.

### **Concession fee and water reimbursement for the exploitation of the Lower Sava River energy potential**

The more important corrective measures by the Ministry of the Environment and Spatial Planning had to relate to the following:

- charge of concession fee to the concessionaire Holding Slovenske elektrarne, d. o. o., Ljubljana for the Boštanj hydroelectric power plant in the amount of EUR 74,693 together with default interest as well as recovery of this fee;
- charge of default interest to the concessionaire Hidroelektrarne na Spodnji Savi, d. o. o., Brežice for the Boštanj hydroelectric power plant in the year 2009 in the amount of EUR 4,095;
- calculation of potential energy of water for all hydroelectric power plants on the Lower Sava River, which represents a basis for calculating and assessing water reimbursement for the use of water;
- initiation of procedures for the modification of Concession Contract in order to:
  - define potential energy of water in megawatts as the basis for the calculation of liabilities of the concessionaire for a particular hydroelectric power plant,
  - appropriately define the amount of concession fee payment, which won't depend on the

- calculation of compensation for the use of building, and
- align the provision on the commencement of concession fee payment with provisions of the Act Governing the Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River (ZPKEPS);
- charge of water reimbursement to the Infra company in the amount of EUR 64,680.

All the aforementioned requirements were complied with.

The Court of Audit established that due to unsound legal provisions the amount of contributions to state budget in the audited period was EUR 747,654 lower than it could have been. Therefore, the Ministry of the Environment and Spatial Planning was also recommended to:

- consider adequacy of the provision of the third paragraph of Article 124 of the current Waters Act, which in the phase of trial operation of a newly constructed hydroelectric power plant provides for the use of water for the production of electric power without paying water reimbursement and recommends to the Government of the RS respectively National Assembly the amendment of this regulation;
- consider adequacy of the sales price of electric power producer as the basis for the calculation of concession fee, because when electric power is sold through companies in the group, transfer prices can bring competitive advantage to such electric power producers, respectively to make liabilities of all electric power producers equivalent.

Based on the consideration of the audit report by the Commission of the National Assembly for Public Finance Control, the Ministry of the Environment and Spatial Planning must in 2011 report to the Court of Audit on the implementation of recommendations.

### **Sale of share of company Splošna plovba, d. o. o., Portorož**

In its response report, *The Ministry of Finance* had to provide evidence of the implementation of the following activities:

- proposal respectively amendment of provisions of Payment of Compensation to the Victims of War and Postwar Aggression Act (ZSPOZ) by specifying the relation between the Republic of Slovenia and SOD, where it will be clearly evident that SOD in implementing ZSPOZ provisions operates on behalf and for the account of the Republic of Slovenia and that assets of the Republic of Slovenia (for the implementation of ZSPOZ provisions) are not transferred into the ownership of SOD but merely into their management, as well as the submission of this proposal to the Government of the RS for its consideration;
- issue of provisional instructions on the method of accounting operations, assets and liabilities for the account of the Republic of Slovenia in the year 2010 in the budget of the Republic of Slovenia and SOD as well as other legal entities that perform operations for foreign account and are required to provide off-balance-sheet disclosure of the received assets, and adoption of a plan of activities with defined time limits and persons responsible for the inclusion of the content of these instructions in general regulations.

*The Government of the RS* in its response report had to provide evidence of:

- the consideration of the proposal for amendments of provisions of Payment of Slovene Compensation Fund Act (ZSOS) by specifying the relation between the Republic of Slovenia and SOD, where it will be clearly evident that SOD in implementing ZSPOZ provisions operates on behalf and for the account of the Republic of Slovenia and that assets of the Republic of Slovenia (for the implementation of ZSPOZ provisions) are not transferred into the ownership of SOD but merely into their management, as well as the submission of the proposal for amendments of the Act to the National Assembly.

The Ministry of Finance and the Government submitted their response reports within the prescribed time limit. In January 2011, the Court of Audit due to inadequately implemented corrective measures issued a decision on serious violation of the requirement for operational efficiency to the Ministry of Finance, while the Government of the RS was issued a decision on violation of the requirement for operational efficiency.

### **Compensation payment and construction of Pluska–Ponikve motorway section overpass**

Corrective measures of DARS have to relate to:

- submission of a mutual agreement on the amendment of the purchase and exchange contract and agreement instead of expropriation, whereby:
  - a purchase and exchange contract is concluded with the natural person for the purchase of real estate owned by the natural person and granting of alternative land;
  - the natural person returns the paid out compensation in the amount of EUR 1,000,000.00, which represents damage to the company Avtotransport Kovačič, d. o. o., Trebnje due to operations on two locations;
  - potential refund of the paid out income tax in the amount of 333,333.33 belongs to DARS.

Should DARS not be able to conclude the mutual agreement within the time limit prescribed for the implementation of this measure, it is to bring an action to establish nullity of the purchase and exchange contract and of the agreement instead of expropriation in the part pertaining to the payment of compensation due to damage as a consequence of operations on two locations, as well as in the part pertaining to the construction of overpass, and claim recovery of compensation unduly paid.

- submission of a mutual agreement with the company Avtotransport Kovačič on the compensation for damage due to operations on two locations, which shall be paid out in the form of constructed overpass 4-4; since such compensation agreement with Avtotransport Kovačič is eligible only if in accordance with Article 108 of Spatial Planning Act the company is lessee respectively tenant of these lands, DARS before the conclusion of the agreement has to verify the existence of such right of the company and submit in its response report documents which reveal legal relationship between the natural person and Avtotransport Kovačič; if there is no legal relationship between the natural person and Avtotransport Kovačič, it has to be claimed from the natural person at the time of concluding the agreement respectively with the claim for the recovery of compensation unduly paid to recover compensation in the amount of EUR 1,500,000.00, i.e. also for the amount of the constructed overpass 4-4; if aside from the overpass construction Avtotransport Kovačič wanted to make a claim for additional damage, new assessment of damage due to the loss of profit related to operations on two locations would have to be made, which would consider data on the operations of Avtotransport

Kovačič at that time, the fact that the 4-4 overpass has already been constructed and that the payment to Avtotransport Kovačič cannot be realised before the recovery of compensation received by the natural person.

In this audit, the Court of Audit demanded the implementation of the following corrective measures also from the Supervisory Board of DARS:

- examine adequacy of agreements and compensation payments for the purchase of lands necessary for the construction of Pluska-Ponikve and Ponikve-Hrastje sections, respectively prepare a plan of activities for the completion of this examination if during the preparation of the response report the Supervisory Board won't be able to examine these transactions.

Time limit for the submission of the response report is March 2011.

### **Lisbon strategy in the field of research and development**

In its audit Lisbon strategy in the field of research and development, the Court of Audit established insufficient activity of the Ministry of Higher Education, Science and Technology in planning, monitoring and providing appropriate response and continuous adjustment of implemented measures and effects in the field of research and development in the period from 2005 to 2008. The imposed corrective measure had to relate to the adoption of a plan of activities for structured and comprehensive monitoring of the implementation of programmes and evaluation of effects thereof in the field of research and development as well as timetable for the implementation of individual activities for establishing this system. The implementation of the measure was only partially adequate, for in its response report the Ministry failed to disclose unambiguously that introduced planned activities would be accompanied by the necessary systematic changes in procedures of analysing and evaluating the implementation of measures and effects thereof. Therefore the auditee was also issued a decision on violation of the requirement for operational efficiency.

### **Other fields**

On the basis of the implemented audits, the Court of Audit also issued recommendations respectively proposals to legal entities that were not auditees but could influence with their activities the elimination of established irregularity respectively inefficiency, ineffectiveness or uneconomy.

### **Other measures**

Aside from carrying out audits and adopting measures on the basis of issued audit reports, the Court of Audit contributes with other activities to the improvement of operations of users of public funds. One of more important activities is proposing amendments to the legislation respectively proposing systematic solutions in individual fields of public sector operations.

### **Proposals to amend regulations**

In 2010, the Court of Audit made proposals to amend or supplement the following acts respectively regulations:

### **Ministry of the Environment and Spatial Planning:**

- consider adequacy of the provision of the third paragraph of Article 124 of the current Waters Act, which in the phase of trial operation of a newly constructed hydroelectric power plant provides for the use of water for the production of electric power without paying water reimbursement and recommends to the Government of the RS respectively National Assembly the amendment of this regulation;
- consider adequacy of setting sales price of electric power producer as the basis for the calculation of concession fee as provided for in the Act Governing the Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River, because when electric power is sold through companies in the group, transfer prices can bring competitive advantage to such electric power producers, respectively to make liabilities of all electric power producers equivalent;
- reconsider in view of warnings by the Inspectorate of the Republic of Slovenia for the Environment and Spatial Planning about difficulties in implementing Article 157.a of Environment Protection Act adequacy of definition of subsidiary obligation of land owner to remediate unauthorised landfills as regards determining a person liable for the remediation based on regulations and increasing obligations of the Republic of Slovenia and municipalities, as well as consider adequacy of criminal sanctions due to unauthorised disposal of waste;
- adequately define with the amendment of the Environment Protection Act quantity and property of waste where no preparation of remediation programme respectively programme of measures is needed, and define a simplified procedure for the removal of unauthorised landfills as well as unambiguously define delimitation of competences and obligations as regards subsidiary activities of the State respectively municipality for the remediation of unauthorised construction waste;
- prevent by amendment of regulations on the basis of consideration of changes in the use of the statement on the location of vehicle as regards managing end-of-life vehicles misuse of statements on the location of vehicle as well as ensure the increase of the number of end-of-life vehicles being dismantled in the framework of public service in order to:
  - provide at least time limitation of the possibility of use of the statement on the location of vehicle and after a certain time oblige the owner of the vehicle to notify the actual use of the vehicle, or else the owner would have to pay penalty for not using mandatory commercial public service of dismantling end-of-life vehicles as well as restrictively use potential exceptions (museum vehicles), respectively
  - establish an instrument of providing financial incentive to the owner to sell or dispose their unused vehicle for dismantling to public service concessionaires (with the refund of the paid environmental tax for end-of-life vehicles);
- supplement the regulation which defines temporary storage of vehicle as the reason for a temporary deregistration of vehicle based on the statement on the location of vehicle with the provision that at the time of deregistration based on the statement on the location of vehicle an evidence should be provided that the vehicle is stored so that it does not have negative effects on the environment;
- specify in regulations which define the statement on the location of vehicle in which cases "storage and sale" shall be used in the statement of the location of vehicle as reasons for deregistration as well as consider causes for the use of the reason "other causes for final removal". Define in the regulation, where appropriate, additional reasons for vehicle deregistration based on the statement on the location of vehicle as well as eliminate or limit the use of the reason "other causes for final removal" to exceptional cases.

### Ministry of Finance:

- prepare a proposal respectively amendment of provisions of Payment of Slovene Compensation Fund Act (ZSOS) by specifying the relation between the Republic of Slovenia and SOD, where it will be clearly evident that SOD in implementing provisions of Payment of Compensation to the Victims of War and Postwar Aggression Act operates on behalf and for the account of the Republic of Slovenia and that assets of the Republic of Slovenia (for the implementation of the provisions of the Act) are not transferred into the ownership of SOD but merely into their management;
- define in Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act (ZPFOLERD) detailed rules for the establishment of criteria or at least determine that ministries should adopt a regulation to define mandatory respectively optional indicators used in establishing criteria for similar operators with the right or authority to perform individual activity of general importance. This is the only way to ensure objectivity in evaluating adequacy of criteria;
- prepare amendments of regulations (acts), which define at least the following:
  - harmonisation of provisions related to individual categories of rapporteurs according to current ZPFOLERD, which will ensure equal treatment of individual categories of rapporteurs achieving a comparable level of annual income,
  - content of the concept of public funds, which will enable a clear illustration of public funds allocated by authority bodies to public companies and contractors with rights or authorities;
  - content of the concept of cost accounting principles, which will enable a substantive evaluation of objectivity of criteria on the basis of which income, expenditure, funds and liabilities to their sources are allocated to activities of general importance and other activities;
  - date when rapporteurs will start reporting on transactions, which will ensure the use of the Act in its entirety;
- prepare a draft of the Rules based on the current Article 13 of ZPFOLERD, which will define substantive solutions as basis for the establishment of registers and records.

The Court of Audit also recommended to the Ministry of Finance to amend the current Public Finance Act so as to ensure legal basis for the elimination of irregularities established in annual financial statements of the national budget and preparation of comprehensive statements by including balance sheets in annual financial statements submitted each year by the Government of the RS to the Court of Audit for auditing and to the National Assembly for approval. On the proposal of the Ministry of Finance, the National Assembly complied with these recommendations in amending ZJF-F (Act amending the Public Finance Act - Official Gazette of the RS, no. 107/10) and included among the documents of the annual financial statement of the national budget also aggregate balance sheet as well as enabled corrections of the auditee in the process of audit implementation respectively in case the National Assembly rejects the approval of the annual financial statement of the national budget.

The issue of the conflict of interests in determining and applying accounting rules remains unsolved, whereby the Ministry of Finance determines and applies the rules at the same time. For several years, the Court of Audit has been putting forward in its reports the fact that from year to year the Ministry of Finance has been amending the accounting rules in accordance with the current reporting needs. Since 2007, the Court of Audit has been warning in all its audits about the issue of non-compliance with the accounting principle of consistency. According to the Court of Audit, it would be necessary for the National Assembly to introduce with the amendment of legislation that regulates the field of accounting for public sector the principle of independent setter of accounting standards, as is for example the case in

the field of companies. Following the examples of other states, the most suitable according to the Court of Audit is the acceptance of International Public Sector Accounting Standards (IPSAS).

In case of the audit concerning the system of awarding, assessing and paying exceptional pensions, the Court of Audit recommended to auditees to decide as soon as possible on the proposal of a new Act from the field of exceptional pensions. Already in its audit procedure, the Court of Audit provided concrete comments on the prepared draft of the new Act from the field of exceptional pensions, which is supposed to replace the current Act from 1990.

In its audit concerning accessibility of pre-school education, the Court of Audit on the basis of the new audit of this important field assessed progress and submitted recommendations on how to provide a more equal treatment of parents and at the same time more cost-efficient investments of the Ministry, above all with potential amendments of the current Financing of Municipalities Act.

### **Cooperation with the Police and the Prosecution Service**

The Court of Audit cooperates with the Police and the Prosecution Service in inspection of criminal offences by delivering at their request audit documentation, draft or proposed audit reports, respectively final audit reports. The cooperation is also strengthened by the organisation of meetings and consultations.

### **Criminal offences**

In 2010, the Court of Audit delivered to the Police respectively the Prosecution Service documentation of two cases as information on criminal offences.

### **Minor offences**

On the basis of audit findings, the Court of Audit made three proposals to the competent authorities to initiate minor offence proceedings.

### **Demands for the assessment of constitutionality and legality by the Constitutional Court of the Republic of Slovenia**

In its *audit of operations of Elektro - Slovenija, d. o. o., and Energy Agency of the Republic of Slovenia*, the Court of Audit recommended to the Constitutional Court of the Republic of Slovenia to assess whether:

- 4th and 47th indent of Article 4, 2nd paragraph of Article 27 as well as 1st and 2nd indent of point a. of Article 87 of Energy Act (EZ) are in accordance with principles of the rule of law from Article 2 of Constitution of the Republic of Slovenia<sup>6</sup> (clarity and precision respectively accuracy of legal provisions) and with the principle of legality from the 3rd paragraph of Article 153 of Constitution, because they authorise the Agency to regulate issues that should be regulated by the Act;

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<sup>6</sup> Official Gazette of the RS, nos. 33/91, 42/97, 66/00, 24/03, 69/04, 68/06.



- 4th indent of 1st paragraph of Article 9 and Article 14 of Methodology are in accordance with 4th and 47nd indent of Article 4, with 2nd paragraph of Article 27 as well as with Article 87 of EZ respectively with the principle of legality from Article 153 of Constitution, because they regulate network charges for special system services not subject to legal authorisation;
- 6th indent of 1st paragraph of Article 9, 1st and 2nd paragraph of Article 17 and Article 31 of Methodology are in accordance with 4th and 47th indent of Article 4, with 2nd paragraph of Article 27 as well as with Article 87 of EZ respectively with the principle of legality from 3rd paragraph of Article 153 of Constitution and with Article 147 and 1st paragraph of Article 148 of Constitution, because they regulate issues not subject to legal authorisation while questionable content is related to imposing a compulsory levy that should be included in the national budget;
- for the same reasons the Constitutional Court should also assess the legality of 2nd paragraph of Article 22 and Article 23 of Decree on General Conditions for the Supply and Consumption of Electricity as well as 3rd paragraph of Article 20, Article 21 and 3rd paragraph of Article 34 of General Conditions for Connection to the Distribution Electric System;
- Article 90 of Methodology is in accordance with Article 87 of EZ respectively with the principle of legality from 3rd paragraph of Article 153 and with Article 147 of Constitution, because it regulates issues not subject to legal authorisation while questionable content is related to imposing compulsory levy;
- Article 82 of EZ is in accordance with the principle of completeness and unity of budget from 1st paragraph of Article 148 of Constitution, because it determines that supplement which is a compulsory levy is not paid into the national budget;
- 8th and 9th paragraph of Article 15 of EZ, 5th and 6th paragraph of Article 64.s of EZ, 1st indent of 1st paragraph of Article 64.p of EZ as well as 2nd and 6th paragraph of Article 67 of EZ are in accordance with 1st paragraph of Article 148 of Constitution, because they determine that statutory contributions are not paid into the national budget;
- 3rd indent of 3rd paragraph and 4th paragraph of Article 71 of EZ are in accordance with principles of the rule of law from Article 2 of Constitution (clarity and accuracy of legal provisions), because they use indefinite legal concepts;
- 1st indent of Article 25, 3rd paragraph of Article 28 and 1st paragraph of Article 32 of Decree on General Conditions for the Supply and Consumption of Electricity are in accordance with EZ respectively 2nd paragraph of Article 120 of Constitution, because they are not subject to legal authorisation;
- 4th paragraph of Article 23.b of EZ is in accordance with principles of the rule of law from Article 2 of Constitution, with the principle of equality before the law from Article 14 of Constitution and with the right to private property from Article 33 of Constitution, because it does not provide for measures and criteria for investments of system operators in the part of network that is not their property, which enables unequal treatment of network owners and interference with their ownership right;
- for the same reasons, also legality of the following regulations concerning the issues about transmission network and connecting devices has to be assessed:
  - Article 10 of System Operating Instructions,
  - 1st, 3rd and 4th paragraph of Article 22, Article 23, 3rd paragraph of Article 25 and Article 29 of Decree on General Conditions for the Supply and Consumption of Electricity,
  - Articles 33, 34, 35 and 36 of Decree on General Conditions for the Supply and Consumption of Electricity and Article 25 of General Conditions for the Consumption on Electricity Distribution Network,
- accordance of Article 81 of Methodology with Article 87 of EZ respectively the principle of legality

from 3rd paragraph of Article 153 of Constitution, because it regulates setting purchase price of providing individual system services of electricity transmission operator contrary to legal authorisation by the Agency.

In its ***audit of operations of the Ministry of the Environment and Spatial Planning and public company INFRA***, the Court of Audit recommended to the Constitutional Court of the Republic of Slovenia to assess whether:

- 3rd paragraph of Article 1, Article 2 and Article 10.a of Act Governing the Conditions of the Concession for the Exploitation of Energy Potential of the Lower Sava River (ZPKEPS) are in accordance with principles of the rule of law from Article 2 of Constitution of the Republic of Slovenia, because they provide for the content of a commercial public service of water regulation contrary to general arrangement of such commercial public service in the current Waters Act;
- 3rd paragraph of Article 1, Article 2 and Article 10.a of ZPKEPS are in accordance with the principle of free economic initiative from 1st paragraph of Article 74 of Constitution, because they restrict competition;
- Article 10.b of ZPKEPS is in accordance with the principle of completeness of budget from Article 148 of Constitution, because it enables avoiding disclosure of expenditure of the Republic of Slovenia in the budget for the year in which the expenditure incurred.

## Strategic objective 4

### To further increase the advisory role of the Court of Audit

The Court of Audit performs its advisory role during the implementation of audits and in post-audit procedures when it demands from auditees to carry out corrective measures and gives them recommendations for the improvement of their operations. The Court of Audit also answers the questions posed by the National Assembly, users of public funds and the public. A special form of advising are also educational sessions organised or participated by the Court of Audit by presenting audit findings from the implemented audits and providing recommendations for better operations of a wider range of users of public funds.

### Responding to questions

In 2010, the Court of Audit gave 162 responses to public finance questions, which with a slight increase is comparable to the year 2009 when it gave 159 written responses to users of public funds.

Members of the Court of Audit and its Supreme State Auditors advised based on the requests by users of public funds especially to non-commercial public service providers and local communities, followed by the ministries, their subordinate bodies and commercial public service providers.

The most common public finance questions relate to the following fields:

- employment relationships and functions,
- payment of salaries,
- new salary system (systematisation, allocation of employees, promotion, determination and calculation of salaries),

- determination and payment of bonuses (for irregular working time, shift work, mentoring),
- reimbursement of costs related to work (meals, travel to work, business travel),
- rights of employees to various benefits (accident insurance, voluntary pension insurance, use of business mobile phones for private purposes),
- other remunerations (attendance fees) and work contracts in public sector,
- management of tangible assets,
- allocation of transfers,
- redeployment of budgetary resources,
- subsidization of student transportation,
- implementation of procedures in using structural policy funds in the Republic of Slovenia and of Public Finance Act,
- reporting of organisers of election and referendum campaigns,
- public procurement of material, services and fixed assets,
- implementation of Public-Private Partnership Act,
- conversion of legal persons governed by public law and non-cash contributions in public companies,
- admissibility of the use of earmarked funds,
- different questions of financial management of the State, municipalities, public institutes and public companies and
- other fields.

## Education of budget users and other public

Members of the Senate, Supreme State Auditors and other representatives of the Court of Audit also in 2010 continued with best practice of sharing their experience and audit findings with budget users from different sectors and segments.

In February 2010, at the invitation of Government Office for Development and European Affairs in joint organisation with European Commission's Directorate-General for the Environment, International Labour Organization's International Training Centre, Embassy of the United Kingdom and Northern Ireland, Embassy of Sweden and Chamber of Commerce and Industry of Slovenia, Dr Igor Šoltes, President of the Court of Audit, lectured at the Conference on green public procurement. Slovenian and foreign lecturers presented a policy of the European Union in the field of green public procurement, Action plan for green public procurement for the period 2009-2012 as well as regulation, legal aspects and solutions and cases of good practice, while Dr Šoltes lectured about green public procurement as responsible public procurement.

In February 2010, Dr Šoltes as well as Jorg Kristijan Petrovič, MSc, and Mojca Planinšek, MSc, Supreme State Auditors, held a lecture for the employees of Commission for the Prevention of Corruption. They presented the most common irregularities established by the Court of Audit in the framework of audits of the state budget and local community budgets.

In March 2010, at the invitation of the Ministry of Justice and Judicial Training Centre, Dr Šoltes lectured at the consultation seminar attended also by lecturers of Eurojust, Ministry of Justice, Higher Court of Ljubljana, District Court of Ljubljana, Faculty of Criminal Justice and Security, Office of the State Prosecutor General and Tax Administration. The president discussed about criminal offences in the field

of public finance.

In April 2010, Integriteta (Integrity) - Association for ethics in public service, organised in Ljubljana a workshop Transparency and integrity in public procurement procedures and management of EU funds, designated for public sector in the field of disbursement and use of EU structural and cohesion funds. The Association is a Slovenian partner of Transparency International. Several experts spoke at the workshop, including Aleksander Petrovčič, Adviser to the President, who presented practical aspects of questions in the field of public procurement by the following segments: control over public procurement, open questions in respect of preventing fraud and corruption in the field of public procurement, audit of public procurement and use of EU funds.

In June 2010, the Court of Audit and National Bureau of Investigation organised an expert meeting at the Police training centre in Gotenica, where they presented good practice and concrete examples to strengthen cooperation and increase effectiveness in detecting, investigating and prosecuting criminal offences in the field of public finance. The purpose of the meeting was to introduce and discuss the proposal of a new Article of the Criminal Code, which incriminates misuse of public funds.

In June 2010, the Chamber of Commerce and Industry of Slovenia organised a consultation on public procurement in Ljubljana, where Aleksander Petrovčič spoke about the issue of public procurement as seen by the Court of Audit of the Republic of Slovenia. Public procurement represents great and unused potential for the elimination of a number of technical and in respect of value significant irregularities in the implementation of projects in all fields as well as achievement of increased efficiency at all levels.

In September 2010, Dr. Igor Šoltes lectured in the framework of XVII Days of Slovenian Administration in Portorož. In the section Economy and efficiency in the use of budgetary resources at the time of recession, the theme of his discussion was Objective based use of public funds.

In September 2010, Aleksander Petrovčič attended a round table, organised in Ljubljana by Integriteta - Association for ethics in public service. The round table, taking place at the Lupa festival of non-governmental organisations, aimed to stress the importance of transparent operations of non-governmental organisations in Slovenia. The participants were explained the concept of corruption and where in non-governmental organisations the corruption is the most common. The discussion was also about the consequences of unethical, non-transparent and irregular conduct of non-governmental organisations on themselves as well as about what they can do to increase transparency and integrity in their organisation.

In December 2010, Dr Igor Šoltes attended the 17th meeting of state prosecutors in Ljubljana, taking place in the framework of traditional education days of state prosecutors, where he spoke about the necessity of amendment of Criminal Code.

In mid-December 2010, the Integriteta association organised in Ljubljana a round table entitled The public has the right to know the identity of "anonymous" providers of funds. The round table was also attended by Dr Igor Šoltes, President of the Court of Audit.

## Strategic objective 5

### **To enhance the capacity and skills of the employees of the Court of Audit and to continuously provide for their training and professional qualifications**

Work that is implemented by the employees of the Court of Audit must be professional and of high quality. This has a strong influence on the mandatory training of resources and continuous obtaining of skills of all employees by different training programmes. The financial plan of the Court of Audit for 2010 earmarked financial resources in the amount of EUR 44,000 for different expert trainings (i.e. seminars, workshops, consultations, and congresses) and the realised amount was EUR 25,542.24.

In line with the plan, the employees attended the following forms of trainings:

#### **Education of human resources for obtaining a professional level of education**

In 2010, there was an internal call for obtaining study leave. Five contracts on education for post-graduate and graduate studies were concluded.

At the end of 2010, the Court of Audit had 12 contracts on education concluded, namely 9 for post-graduate and 3 for graduate studies.

#### **Training of human resources for obtaining skills**

In line with the regulations, the employees of the Court of Audit attend trainings for obtaining the title state auditor, certified state auditor, and for a bar exam.

Mandatory training of all the employees in the field of safety at work as well as training for persons having access to classified information were performed as well.

Five employees attended and successfully completed the training for obtaining the title state auditor in 2010, and the same number of auditors were awarded the title certified state auditor. One employee passed the bar exam.

Based on the internal call for obtaining study leave, two contracts on the preparation for taking a bar exam were concluded.

At the end of 2010, there were five employees that had contracts on training for obtaining the title state auditor, eight employees for the title certified state auditor and two employees for the bar exam.

## **Upgrading the knowledge of human resources**

Training was organised in the form of external and internal seminars and seminars abroad. Funds allocated for training were divided among the departments based on the number of employees in a particular department.

There was one internal seminar organised about the changed procedure for the preparation of the state budget and transition to accrual accounting in case of direct budget users, which was attended by the majority of auditors.

## **Strategic objective 6**

### **To continually improve the communication strategy and to strengthen the cooperation with others**

#### **Cooperation with the National Assembly**

The National Assembly of the Republic of Slovenia has to discuss audit and annual reports of the Court of Audit as defined by the Court of Audit Act. Therefore the Court of Audit delivers all issued audit reports to the National Assembly. The reports are considered by the Commission for Public Finance Control (hereinafter: Commission). In 2010, the Court of Audit continued with the preparation of questionnaires for discussions about audit reports at Commission's meetings, since the questionnaires were helpful to the members of the Commission in considering individual audit reports.

In 2010, the Commission for Public Finance Control in the framework of eight regular meetings and one extraordinary meeting addressed seven reports of the Court of Audit (3 less than in the previous year), one post-audit report, one notification on serious violation of the requirement for operational efficiency and the Annual report of the Court of Audit for the year 2009. The Commission invites the President of the Court of Audit, other representatives of the Court of Audit as well as representatives of audited users of public funds to all its meetings where it discusses the Court's reports.

Table 2: List of reports discussed by the National Assembly

No. of meeting	Date	Audit report
11th regular	20/1/2010	<ul style="list-style-type: none"> <li>Adoption of a report with recommendations about the consideration of the item Audit report: Co-financing of the media by the State</li> <li>Adoption of a report with recommendations about the consideration of the item Audit report: Awarding concessions in health sector</li> </ul>
14th regular	16/3/2010	<ul style="list-style-type: none"> <li>Arrangement of the performance of a commercial public service of electricity distribution system operator</li> </ul>
15th regular	14/4/2010	<ul style="list-style-type: none"> <li>Adoption of a report with recommendations about the consideration of the item Audit report: Arrangement of the performance of a commercial public service of electricity distribution system operator</li> </ul>
17th regular	9/6/2010	<ul style="list-style-type: none"> <li>Annual report of the Court of Audit for 2009</li> </ul>
19th regular	15/9/2010	<ul style="list-style-type: none"> <li>Management of separately collected municipal waste</li> <li>Post-audit report: Corrective measures related to the management of separately collected municipal waste</li> <li>Notification on serious violation of the requirement for operational efficiency</li> <li>National Housing Programme</li> </ul>
9th extraordinary	21/9/2010	<ul style="list-style-type: none"> <li>Proposed recommendation to the Government of the RS regarding the proposal of the annual financial statement of the state budget 2009</li> </ul>
20th regular	14/10/2010	<ul style="list-style-type: none"> <li>Adoption of a report with recommendations about the consideration of the item Audit report: Management of separately collected municipal waste</li> <li>Adoption of a report with recommendations about the consideration of the item Audit report: National Housing Programme</li> <li>Implementation of recommendations of the Commission based on the consideration of audit report Arrangement of the performance of a commercial public service of electricity distribution system operator</li> <li>Management of end-of-life tyres</li> </ul>
21th regular	29/10/2010	<ul style="list-style-type: none"> <li>Proposal of the annual financial statement of the state budget 2009</li> </ul>
22th regular	9/12/2010	<ul style="list-style-type: none"> <li>Adoption of a report with recommendations about the consideration of the item Audit report: Management of end-of-life tyres</li> <li>Concession fee and water reimbursement for the exploitation of the Lower Sava River energy potential</li> <li>Financial statements and regularity of operations of Pension and Disability Insurance Institute of Slovenia</li> </ul>

## International cooperation

In the year 2010, objectives of international action of the Court of Audit were again to strengthen cooperation with other Supreme Audit Institutions and with its participation at international seminars enhance the capacity and skills of the employees as well as become well established and recognised audit institution on both European and world scale.

Representatives of the Court of Audit attended respectively organised 60 international events in the field of Supreme Audit Institution operations: 50 meetings took place abroad, the Court of Audit organised two seminars in Ljubljana and on eight occasions it welcomed representatives of various state institutions worldwide. 57 employees of the Court of Audit attended meetings abroad and provided 42 inputs, while at domestic consultations they conducted meetings and also provided inputs.

Representatives of the Court of Audit attended all meetings related to preparations of Contact Committee meetings and were present at all meetings of working groups operating within this Committee. They also participated at two bilateral meetings with the highest representatives of audit institutions abroad and made several presentations of their work to representatives of various foreign institutions.

All educational seminars and conferences abroad had lectures prepared at their departments while for those employees specially interested in the themes concerned, individual discussions about the presented themes were conducted.

Experts of the Court of Audit attended two meetings of INTOSAI working groups and those meetings of EUROSAI working groups they participate in. They also gave four lectures in various forums abroad as well as one lecture at the Court of Audit of the Republic of Austria.

## Cooperation within the Contact Committee

*The Contact Committee* met in Luxembourg, where the main topic of discussions was the presentation of the latest amendments regarding financial arrangements of the European Union. The meeting was attended by two representatives of the Court of Audit.

In 2010, all workings groups within the Contact Committee organised at least one or two meetings. The Court of Audit is a member of the core *Working Group on Structural Funds* and participated at two meetings, one of them being organised by the Court of Audit in Ljubljana and the other taking place in the Netherlands.

*Working Group on Common Auditing Standards* completed its work in 2010. Both meetings in Luxembourg were also attended by a representative of the Court of Audit.

*Working Group on Public Procurement* completed its work in 2010 by organising a seminar in Portugal, also actively participated by the President of the Court of Audit, and issuing a Guideline.

*Coordination Group*, operating within the *Group of Representatives of Supreme Audit Institutions of the European Union* and preparing work programmes for the adoption of documents at Contact Committee meetings, met twice: in Bonn and Paris, *representatives of Supreme Audit Institutions*, responsible for coordination



between Supreme Audit Institutions, held meetings for the preparation of material for the Contact Committee in Prague and Luxembourg. All meetings were attended by a representative of the Court of Audit.

*Working Group on National Supreme Audit Institutions Reports on EU Financial Management* held a meeting in Stockholm, also attended by a Supreme State Auditor of the Court of Audit.

*Working Group on a Joint Audit of the Supreme Audit Institutions of Hungary, Italy, France and Slovenia* as regards the construction of the railway line from Lyon to Budapest, in the framework of the use of funds for the development of Trans-European Transport Networks (TEN-T), held a meeting in Budapest, also attended by an auditor of the Court of Audit.

A seminar on *the comparison of methodology in fiscal policy* took place in Helsinki also in 2010, attended by an expert of the Court of Audit.

In Luxembourg, a seminar on *the implementation of the Lisbon Strategy* was organised, with the active participation of a representative of the Court of Audit.

### **Bilateral cooperation**

In 2010, Dr Šoltes, the President of the Court of Audit, visited the Supreme Audit Institutions of Albania and Macedonia. They discussed possibilities for the exchange of audit practices. To this end, the Court of Audit was also visited by experts of the Supreme Audit Institutions of Macedonia and Albania, who got acquainted with work procedures of the Court of Audit.

The Court of Audit presented its work also to representatives of OECD (Organization for Economic Cooperation and Development) and to the parliamentary delegations of Serbia, Bulgaria, Kosovo, Georgia, Moldova and India. Moreover, a meeting with auditors of the European Court of Auditors took place, where they discussed the European Commission's control over European aid.

The Supreme Audit Institution of Slovakia invited the Court of Audit to cooperate in the evaluation of organisation and institution operation, i.e. peer-review. Three representatives of the Court of Audit were involved in the project of evaluating public relations and auditing local self-government entities. Their work was completed.

The Court of Audit completed its close mutual institutional cooperation with the Supreme Audit Institution of the United Kingdom in order to strengthen the operations of the Supreme Audit Institution of Kosovo. At the Office of the Auditor General of Kosovo, experts of the Court of Audit prepared several workshops on strengthening the institution whereas in December, Dr Šoltes attended a meeting where he presented all accomplished activities in the process of close mutual institutional cooperation.

### **Cooperation within the V4+2 Group**

The meeting of six Supreme Audit Institutions, i.e. Visegrad Group, Austrian Court of Audit and Court of Audit of the Republic of Slovenia, took place in Slovakia. They presented activities of Supreme Audit

Institutions in the time of economic crisis and agreed on joint activities.

### **Cooperation within EUROSAI**

The Court of Audit cooperates in several Working Groups of *the European Organisation of Supreme Audit Institutions* (EUROSAI). It is very active in *the Working Group on Environmental Auditing*, since an auditor of the Court of Audit cooperates in the Management Board of this Group. In the Netherlands, they discussed auditing of the efficient use of energy and evaluating outcomes of environmental audits.

In Switzerland, *the meeting of the Working Group on Information Technology*, whose purpose is to promote joint audit activities in the field of information technology, entitled Project of self-assessment of capacities of Supreme Audit Institutions for information technology, was also attended by an expert of the Court of Audit. A subgroup on preventing fraud related to value added tax is active within this Working Group. In Ljubljana, a seminar *on the exchange of ideas and experience in introducing new approaches for the reduction of fiscal deficit* took place, led by experts of the Court of Audit and attended by 31 participants from 21 Supreme Audit and Financial Institutions throughout Europe.

In 2010, a seminar *Implementation of programmes and measures for increasing employment of the disabled* was the initiation of a joint audit in the field concerned, carried out also by the Court of Audit of the Republic of Slovenia. Two meetings, also participated by two auditors of the Court of Audit, were held in Warsaw.

The Court of Audit was invited to participate in the organisation of the EUROSAI Congress, which will take place in 2011 in Lisbon. The President of the Court of Audit thus attended the first preparatory meeting.

### **Cooperation within INTOSAI**

Members of the Court of Audit attended meetings of two Working Groups of *the International Organisation of Supreme Audit Institutions* (INTOSAI).

*Working Group on the Audit of Privatisation, Economic Regulation and Public Private Partnerships* met in London. The meeting was also participated by two representatives of the Court of Audit.

*Working Group on Environmental Auditing* prepared the INTOSAI global audit on the achievement of the Kyoto Protocol objectives and thus met twice, in Oslo and in Athens. An auditor of the Court of Audit is a member of the core group and also attended both meetings.

### **Cooperation within other multilateral organisations and consultations**

The Lisbon workshop entitled New trends in political financing regulation saw active cooperation of the President of the Court of Audit. He also made his presentation at the seminar on internal auditing in Ukraine. Moreover, he was involved in the preparation of working documents at Supreme Audit Institutions in Montenegro and Serbia. At a seminar of the Austrian Court of Audit, a Supreme State Auditor lectured on performance audits. Representatives of the Court of Audit also attended seminars on the evaluation of public policies in Barcelona, on the role of Supreme Audit Institutions in combating corruption in Budapest, on efficiency measurement in London, as well as two conferences in Berlin: *Who*

*protects citizens* and *Auditing the use of European Union funds*. At BledCom, international symposium of communication experts, a representative of the Court of Audit lectured on communication traps and opportunities related to public funds.

## Cooperation with the media and public

### Questions posed by journalists and requests for additional explanations

In the last few years, there has been an increase observed in the number of questions posed by media and requests for additional explanations on audit procedures and other public finance issues. In 2010, there were 235 written questions of journalists and requests for additional explanations recorded, which is 100 more than in 2009. There were also many telephone inquiries.

### Press conferences

From January to the end of December 2010, there were 10 press conferences held at the issue of the following audit and post-audit reports:

- Management of separately collected municipal waste;
- Efficiency and effectiveness of motorway maintenance in the period 2005-2007;
- Aid of the Republic of Slovenia in case of natural disasters;
- Rural development policy 2003-2008;
- Sale of share of company Splošna plovba, d. o. o., Portorož;
- Proposal of the annual financial statement of the state budget 2009;
- Regularity of transition to a new salary system;
- Effectiveness of the system of awarding, assessing and paying exceptional pensions;
- Economy of operations of DARS, d. d. in paying compensation to the natural person and constructing Pluska-Ponikve motorway section overpass;
- Efficiency of the retirement process.

### Statistical review of published articles in media

The number of published articles in media in 2010 amounted to 6,681, i.e. increase of more than a third, or more precisely, increase of 38.7 percent compared to the year 2009. The increased number of published articles shows the relevance of topics in audit reports, planned media activities after the publication of audit reports, including regular informing and better cooperation with the media following the work of the Court of Audit.

The greatest share of publications was recorded in January, when the audit on the management of separately collected municipal waste was presented, with the notification on serious violation of the requirement for operational efficiency. The second highest number of publications was recorded in December, when findings concerning the effectiveness of the system of awarding, assessing and paying exceptional pensions in providing equal treatment of persons in the period from 1 January 1998 to 10 August 2010 were presented. Presented were also findings of the audit with the objective to express an opinion on the economy of operations of DARS in agreeing on and paying compensation to the natural person and agreeing on the construction of Pluska-Ponikve motorway section overpass in the period from

1 January 2009 to 31 May 2010. The purpose of the audit was to examine the adequacy of the concluded purchase and exchange contract and of the agreement instead of expropriation between DARS and the natural person as well as reasons for the payment of compensation that was supposed to belong to the company Avtotransport Kovačič, d. o. o., Trebnje, to the account of the natural person, the construction of the special overpass very close to the envisaged motorway exit and the absence of an expropriation procedure. In December, the Court of Audit also presented its findings from the audit with which it examined the efficiency of the retirement process implemented by the Pension and Disability Insurance Institute of Slovenia. Also the audit report on the accessibility of pre-school education was issued in December. Its objective was to assess effectiveness and efficiency of the Ministry of Education and Sport in improving accessibility of pre-school education in the period after the issue of the audit report on the provision of pre-school education in the period from 2003 to 2006 in February 2007.

The month of March is third in the number of audit reports issued. This can be attributed to the issue of two audit reports, one related to the efficiency and effectiveness of motorway maintenance in the period 2005-2007 and the other to the efficiency of the system of granting state aid in case of natural disasters in the years 2007 and 2008.

#### **Publications on the website of the Court of Audit**

All reports of the Court of Audit are public. When they are submitted to the auditees, they are also available to the public on the website of the Court of Audit, except in case of reports defined in the third paragraph of Article 24 of Court of Audit Act. The website also presents audits in the process of implementation, with a description of the phases of particular audits. The public is thus able to regularly monitor the work of the Court of Audit. Such an approach shall be provided also in the future.

In 2010, the Court of Audit published 95 articles on its website, i.e. the same as in 2009. The public was regularly informed about all activities, press conferences, public statements as well as other domestic and international events.

## **Strategic objective 7**

### **To further improve the institution's work organisation and management**

The Court of Audit continually seeks excellence in performance of its tasks. Therefore it has set up a process of quality assurance in all phases of audit and post-audit procedures.

Transition to a higher version of SPIS4 application for recording documentary and archive material was accomplished at the end of 2009, which means that the Court of Audit entered the year 2010 with an upgraded application. The introduction of paperless operation in all fields of activities, optimisation and rationalisation of operation as well as improvement of quality of implemented work were among important objectives of upgrading SPIS application.

Opportunities enabled by the update in the field of performance of audit responsibility can be defined especially in the context of optimisation and rationalisation of operation as well as improvement of quality

of implemented work. Namely, it can considerably facilitate audit procedure activities and contribute to a more efficient implementation of a particular audit.

The year 2010 saw the purchase of hardware, which also includes new servers and a library for archiving data.

The efficiency of the Court of Audit has been improved also by contributions of the Maribor office that carries out audits in the area of North East Slovenia. The control in this area is thus strengthened and better knowledge of local circumstances provides for a more efficient audit implementation.

## **Internal auditing**

Internal auditing of the Court of Audit is carried out by auditors appointed by the President of the Court of Audit. Rules on accounting and financial operations and Rules on internal controls of the Court of Audit of the Republic of Slovenia are legal bases for internal auditing. The type and scope of audits in 2010 were defined by a short-term plan of implementing internal audits, approved by the President of the Court of Audit.

In 2010, the internal audit of regularity of financial statements and regularity of implementing the financial plan of the Court of Audit was carried out, which according to Rules on accounting and financial operations of the Court of Audit of the Republic of Slovenia is mandatory. The subject of the audit were financial statements for the year 2009, including the balance sheet as of 31 December 2009 and the financial plan for 2009. The audit objective was to express an opinion on the reliability and credibility of the financial statements and on the regularity of the implementation of the financial plan. The audit findings were presented in the audit report. On the basis of reviews it was established that the financial statements showed the true picture of the account balance as of 31 December 2009 and business outcome in the period from 1 January 2009 to 31 December 2009. The implementation of the financial plan of the Court of Audit for 2009 was in all material ways in line with the regulations (unqualified opinion).

## AUDIT FINDINGS

### Opinions expressed in audit reports

In the issued audit reports where the objectives were either expressing an opinion on the regularity of operations or on compliance of operations with the regulations, or an opinion on financial statements, a total of 77 opinions were expressed. In 2009, there were 83 of such opinions.

Opinions expressed within performance audits were descriptive and consisted of assessments of efficiency, effectiveness and economy of operations. In 2010, there were 21 of such opinions.

The most frequent type of opinion expressed in 2010 was an unqualified opinion. A high percentage, more than a half of all expressed opinions on the regularity of operations and financial statements (54.5 percent), can be attributed especially to audits of organisers of election and referendum campaigns. To this end, it has to be stressed that such opinions cannot be taken for granted. This is confirmed by the opinions expressed in the field concerned in the past years. The Court of Audit is pleased to establish that good cooperation with auditees enables exceptional progress in ensuring regularity of reporting and operations. An additional stress has to be put on the fact that in the case of regularity of operations there were as many as 21 unqualified opinions expressed to organisers of election and referendum campaigns. A high number of unqualified opinions to organisers of election and referendum campaigns was also expressed in the case of regularity of financial statements.

Should the number of the stated mandatory audits be disregarded, the most frequent type of opinion expressed in 2010 (as was the case in 2009) would be a qualified opinion. There were 42 unqualified opinions expressed, which represents 54.5 percent respectively a 16 percent increase compared to 2009 (38.5 percent). The share of unqualified opinions has been increasing since 2007, when there were only 11 percent of unqualified opinions. They are followed by qualified opinions, i.e. 27, which is just above one third (35.1 percent). 10.4 percent of opinions were adverse opinions, issued in eight audit reports. Their share decreased significantly compared to the year 2009, i.e. for almost a half, when there were 15 adverse opinions (18.1 percent). The share of types of opinion expressed is illustrated in Figures 4 and 5.

Figure 4: Types of opinion expressed in 2010 - in total

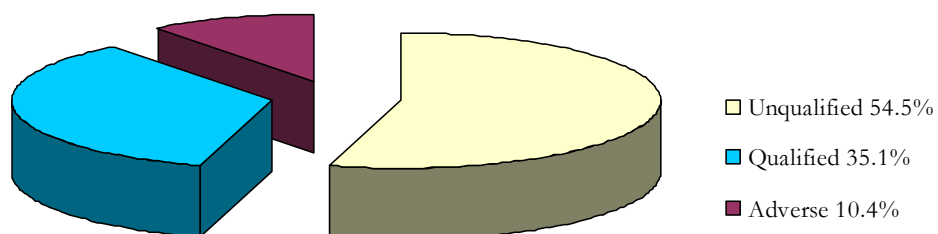
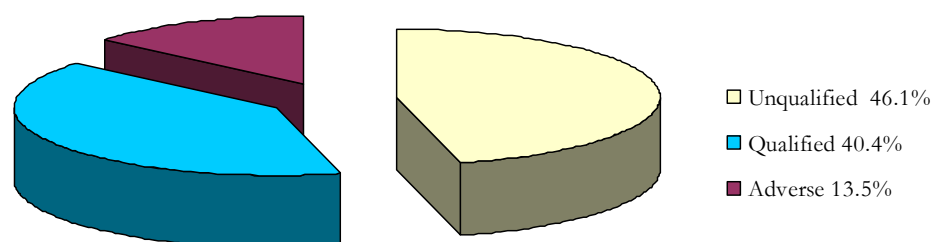
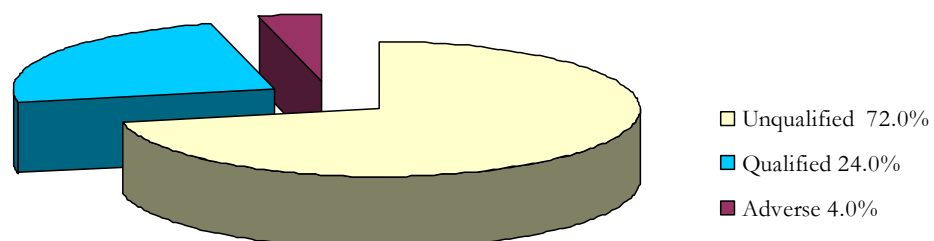


Figure 5: Opinions by audit objectives

Opinions on the regularity of operations



Opinions on financial statements



Among the audits with the objective to express an opinion on the regularity of operations, the most frequent are unqualified opinions, i.e. 24, which is 46.1 percent respectively just above seven percent more than in 2009 (38.7 percent). They are followed by qualified opinions, i.e. 21, which represents 40.4 percent. This is comparable to the previous year (38.7 percent). There were only seven adverse opinions expressed, which is 13.5 percent of the total share. Compared to the year 2009 (22.6 percent), the share decreased for almost 10 percent. The most common reasons for expressing qualified opinions and adverse opinions were violations of acts and other rules that regulate the financing of users of public funds.

In the case of financial audits, the Court of Audit issued as many as 18 unqualified opinions, which represents almost three fourths (72 percent). There were 38.1 percent of unqualified opinions in 2009. This means that their share almost doubled. Qualified opinions follow. There were six of them, which is just under a fourth (24.0 percent); the share of such opinions in 2009 amounted to 57.1 percent. There was just one adverse opinion expressed. This represents only 4.0 percent of all opinions, which is comparable to 4.8 percent in 2009.

## Most common errors and irregularities

The Court of Audit carries out audits of the regularity of operations of users of public funds by reviewing compliance with regulations. Operations of users of public funds are regulated by a number of acts and regulations, namely their financial operations are regulated by legislation from the broad field of public finance, the accounting and payment of salaries of employees is regulated by labour legislation while operations of budget users are regulated also by many other relevant regulations. The most common errors and irregularities, disclosed in 2010 by the Court of Audit in its audit reports, are put forward in the continuation of the report.

As regards the structure and explanation of the budget and annual financial statement of the budget, there were different irregularities established in the field of local self-government: there are no objectives and strategies by individual fields presented in the budget; the development programme plan does not disclose planned budget expenditure for state aids; the annual financial statement is not prepared according to functional and programme classification; explanations of the annual financial statement do not include explanations of the implementation of the development programme plan and neither do they contain explanations of more material deviations between accepted and realised expenditure.

Irregularities were also established in the incurrence of liabilities respectively budget implementation; overdue and outstanding liabilities on the last day of the year exceeded planned funds; realisation by budget items was higher than planned in the current budget; there was an ineligible use of funds; liabilities were settled within time limits beyond those prescribed with the Act on Implementation of the Budget; payment of invoices was not based on the issued purchase order or contract; no penalty for exceeding the time limit for the completion of works was charged; there were no required financial securities obtained from contractors.

In the allocation of transfers the following irregularities were established: transfers were allocated directly on the basis of applications without a public tender; no contracts were concluded with the recipients of transfers; applications for obtaining transfers based on a public tender were considered in the allocation of transfers even if not submitted correctly; the Committee deciding about the allocation of transfers



included a member who was associated by interest with the recipient of transfers; the Commission did not keep records on the opening of applications and did not evaluate applications in accordance with criteria, it did not submit decisions on the selection to the recipients of funds and did not invite them to sign the contracts.

Irregularities were also established in public procurement: public contracts were not awarded appropriately; incomplete tenders were not excluded from the public procurement procedure; concluded contracts were not in line with tenders; public procurement procedure was initiated after the works started to be implemented; no adequate records were kept on the award of public contracts with the value lower than the legally defined value.

Particularly stressed are irregularities in granting short-term and long-term loans, which do not find basis in regulations, as well as irregularities in concluding a direct contract on equity public private partnership, where the procedure for the selection of an equity partnership contractor was not carried out on the basis of a public tender and in accordance with public procurement regulations.

Among the more material irregularities in financial statements of commercial public service providers and institutes are the following:

- inappropriate and insufficient disclosure of tangible fixed assets and liabilities for funds received to be managed;
- non-disclosure of the value of land and real estate managed by institutes and consequently insufficient disclosure of managed funds;
- irregular disclosure of founders' earmarked funds, i.e. among short-term liabilities instead of among liabilities for managed funds;
- irregular calculation of amortisation and thus irregular disclosure of the value of fixed assets and liabilities for managed funds;
- overstated fund of assets and understated provisions due to irregular compensation of costs of amortisation of fixed assets from donations;
- undefined criteria for dividing income and expenditure from the provision of public services and commercial activities.

After the implementation of new salary regulations in 2008, the most common irregularities in the field of salaries in case of commercial public service providers and institutes were the following:

- Public Institute Staff Establishment Act applied from 1 August 2008 was not in accordance with Public Sector Salary System Act (ZSPJS), Collective Agreement for Public Sector and Annexes to collective agreements (public institutes established workplaces that are not defined in the catalogue of functions, workplaces and titles as well as workplaces from collective agreements for other activities; they did not bring salary grades in line with collective agreements of activities; they did not define among the conditions for individual workplaces the required education level according to the classification of the workplaces into salary scales);
- Employment contract was not in accordance with ZSPJS, Collective Agreement for Public Sector and Annexes to collective agreements or with Public Institute Staff Establishment Act (after the translation of the salary system, public institutes placed civil servants to workplaces that were not defined in Public Institute Staff Establishment Act and to workplaces they were not qualified for; institutes did not classify civil servants into salary grades in accordance with Public Sector Salary System Act and did not determine the appropriate amount of funds for the elimination of

disproportions in basic salary and the difference to the salary amount determined according to regulations applied before the transition to the new salary system; nominal values of basic salaries for workplaces and basic salaries for civil servants were not determined in accordance with ZSPJS; amounts of the quarter of the entire disproportion in basic salary from 1 May 2008 were not determined in accordance with Collective Agreement for Public Sector, civil servants were promoted without being verified for complying with conditions for promotion and prior to the end of a three-year period after their last promotion respectively before being evaluated three times in accordance with the procedure of Decree on the Promotion of Civil Servants to Salary Grades);

- salary of a civil servant was not calculated in accordance with employment contract, ZSPJS, Collective Agreement for Public Sector, Annexes to collective agreements or internal acts as regards the amount of basic salary and bonuses (individual public institutes calculated and paid grade-related allowances contrary to Decree on the Criteria for Determining the Amount of Grade-Related Allowances for Civil Servants; basic salary was not taken into account in the salary calculation; part-time work salary was calculated contrary to Decree on the Uniform Methodology and Forms for the Calculation and Payment of Salaries in the Public Sector).

# PRESENTATION OF WORK BY AUDIT DEPARTMENTS AND IMPLEMENTED AUDITS

## The field of the state budget and direct state budget users

In 2010, the audit department B1 was carrying out 35 audits. Under 25 audits, which included 48 auditees, the audit procedure was concluded and audit reports issued. 22 of the issued reports referred to financial and regularity audits, one was drawn up on the basis of a regularity and performance audit, while there were two reports made in the framework of performance audits only. Audits reports issued in 2010 are the following:

1. Operations of the Slovenian Research Agency;
2. Regularity of financing the election campaign of the list of DeSUS, Democratic Party of Pensioners of Slovenia, for electing Slovenian Members to the European Parliament in the year 2009;
3. Regularity of financing the election campaign of the list of LDS, Liberal Democracy of Slovenia, for electing Slovenian Members to the European Parliament in the year 2009;
4. Regularity of financing the election campaign of the list of N.Si, New Slovenia - Christian People's Party, for electing Slovenian Members to the European Parliament in the year 2009;
5. Regularity of financing the election campaign of the list of SD, Social Democrats, for electing Slovenian Members to the European Parliament in the year 2009;
6. Regularity of financing the election campaign of the list of SDS, Slovenian Democratic Party, for electing Slovenian Members to the European Parliament in the year 2009;
7. Regularity of financing the election campaign of the list of SLS, Slovenian People's Party, for electing Slovenian Members to the European Parliament in the year 2009;
8. Regularity of financing the election campaign of the list of SNS, Slovenian National Party, for electing Slovenian Members to the European Parliament in the year 2009;
9. Regularity of financing the election campaign of the list of ZARES, New Politics, for electing Slovenian Members to the European Parliament in the year 2009;
10. Proposal of the annual financial statement of the state budget 2009;
11. Regularity of financing the referendum campaign of the Croatian Cultural Association in Maribor for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
12. Regularity of financing the referendum campaign of the Institute of the Assembly for the Republic for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;

13. Regularity of financing the referendum campaign of the party of LDS, Liberal Democracy of Slovenia, for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
14. Regularity of financing the referendum campaign of the party of N.Si, New Slovenia - Christian People's Party, for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
15. Regularity of financing the referendum campaign of the party of SD, Social Democrats, for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
16. Regularity of financing the referendum campaign of the party of SDS, Slovenian Democratic Party, for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
17. Regularity of financing the referendum campaign of the party of SLS, Slovenian People's Party, for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
18. Regularity of financing the referendum campaign of the party of SMS, Youth Party - European Greens, for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
19. Regularity of financing the referendum campaign of the party of SNS, Slovenian National Party, for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
20. Regularity of financing the referendum campaign of the party of SU, Slovenian Union, for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
21. Regularity of financing the referendum campaign of the 25 June Institute for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
22. Regularity of financing the referendum campaign of the party of ZARES, New Politics, for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
23. Regularity of financing the referendum campaign of the Association of Patriotic Societies Hervardi for the legislative referendum on the Act ratifying the Arbitration Agreement between the Government of the Republic of Slovenia and the Government of the Republic of Croatia;
24. Implementation of tasks of Budget Supervision Office of the Republic of Slovenia;
25. Motorway maintenance.

All audit reports are available to the public in Slovene language on the website of the Court of Audit, <http://www.rs-rs.si>.

In 2010, department B1 reviewed all annual reports on the operations of the political parties for the year 2009 in line with Political Parties Act. The political parties must submit to the National Assembly their annual reports on their operations. Before they deliver the reports to the National Assembly, they must be reviewed by the Court of Audit. The note on the review must be attached to the political party report and delivered to the National Assembly. Every party must submit to the Court of Audit their annual report by March 31 of the current year at the latest.

The annual report on the operations of the party must include all income and expenditure and especially sources of the income. The report must disclose data on the company, the seat of the legal entity respectively name, surname and address of the natural person and the amount contributed annually by the legal entity or natural person, if the total amount of contributions for the year concerned exceeds three times the average monthly salary of an employee in the Republic of Slovenia, as well as data on election costs. The report must also include the party's assets; all changes in the assets must be described, including the sources of funds for increasing the assets if this increase exceeds the total amount of five average gross salaries of an employee in the Republic of Slovenia according to data of Statistical Office of the Republic of Slovenia for the year concerned. The Court of Audit assesses whether annual reports of political parties meet the requirements stated in regulations concerning operations of political parties.

The control over the implementation of provisions of Political Parties Act, the violations of which are considered minor offences, is carried out by the Inspectorate of the Republic of Slovenia authorised for internal affairs, except the control over the implementation of provisions related to financing political parties, which is exercised by the Ministry of Finance.

### ***Audit of the annual financial statement of the state budget of 2009***

The Court of Audit expressed an adverse opinion on the proposal of a general part of the annual financial statement for 2009, since no paid dividends of company Telekom Slovenije, d. d., Ljubljana, and no income related to conducting insurance business in the framework of international commercial business are disclosed under non-tax income in the income and expenditure accounts. No payments of funds to beneficiaries for investments in the public telecommunications network and no payments of compensation to the victims of war and postwar aggression were disclosed under current transfers. Under current expenditure, no interest for advanced SOD funds are disclosed and neither are costs charged by SOD for its implementation of tasks according to Return of Investments in the Public Telecommunications Network Act, expenditure related to conducting insurance businesses in the framework of international commercial businesses and funds for the establishment of a guarantee fund. Under expenditure in the financial assets and liabilities account, there is irregular disclosure of funds for the establishment of contingency reserve for insuring and financing international commercial businesses as well as of funds for the establishment of a guarantee and holding fund, while there is no disclosure of funds invested into the national treasury single account system and deposited with commercial banks. In the financing account, benefits are disclosed too low since under benefits from borrowing there is no disclosure of advanced SOD funds for the payment to beneficiaries for investments in the public telecommunications network and related charged costs and no disclosure of benefits from borrowing with bond RS 39 that were used for the payment of compensation to the victims of war and postwar aggression.

Due to irregular classification of income and expenditure in the income and expenditure accounts, the disclosure of tax income and current expenditure is too high, while non-tax income and investment expenditure are disclosed too low. Due to irregular classification of expenditure in the financial assets and liabilities account, expenditure for increasing capital shares is disclosed too high, while the disclosure of expenditure for loans is too low.

The Court of Audit warned about inadequate accounting arrangement of recording long-term deposits in the new Rules on a Uniform Chart of Accounts Designed for the National Budget, Budget Spending

Units and Other Entities under Public Law. Without prejudice to its audit opinion, the Court of Audit warned that guarantees to banks for the limitation of financial crisis effects were not adequately secured.

### ***Audit of motorway maintenance***

DARS does not conduct analyses of how to achieve the best ratio between the life span of motorways and maintenance costs. Therefore, it did not prepare analyses which would provide an answer to the question of the most favourable period for providing major maintenance from the financial point of view. Moreover, it does not find the answer to the question whether it is more advantageous to provide a more cost-effective regular maintenance and subsequently extensive major maintenance or vice versa. In the light of costs, DARS in the field of major maintenance does not make international comparisons with regard to maintenance costs in respect of different material being used for maintenance. If DARS conducted these analyses and was interested in doing so, savings could be achieved. Namely, there exists a risk of the lack of interest. DARS does not make sufficient provision for the selection of the most advantageous respectively cost-effective contractors. Their income is namely dependent on the value of the work performed - the Agent Contract fixes the remuneration for DARS for its performance of the contract in the amount of 5.49 percent of the value of the work actually realised - which is why the confirmed values of investment programmes can be set too high; the contractors can offer a lower value of the work with DARS thus receiving higher income in any case. Aside from the aforementioned fixed remuneration, DARS is entitled to a variable remuneration, which is based on the calculated difference between the confirmed and actual value of the investment programme. DARS is unable to manage risks concerning confirmed excess values of investment programmes. Owing to this, contractors are in a position to offer a lower value of the work, while DARS in any case receives the variable part from the reward for a lower contractual value. DARS concluded contracts with DDC svetovanje inženiring, Družba za svetovanje in inženiring, d. o. o., Ljubljana (DDC Consulting Engineering, Company for Consulting and Engineering), which caused conflict of interests, since DDC prepares bases for planning and implementing a public tender for major maintenance, while at the same time it is in the interest of DDC that in the light of the fact that its income is dependent on contractual value, the contractual value for major maintenance be as high as possible.

DARS could provide more appropriate maintenance of motorways. It opened to traffic particular sections of newly constructed motorways and expressways without obtaining an operating permit. DARS does not always obtain bank guarantees for the elimination of deficiencies during the guarantee period at the time of opening to traffic, but can obtain them even up to 16 months after the start of the guarantee period. Even the drawing up of a final statement of account and acceptance of construction, which must be realised in 60 days after the issue of an operating permit, came several months late in the majority of cases.

DARS does not possess data on all major maintenance work on a particular section. Due to non-transparent records, DARS does not manage risk that during the guarantee period costs for the elimination of construction and major maintenance deficiencies are charged to DARS and that DARS does not call on bank guarantees respectively does not require the elimination of deficiencies to be borne by the operator. Moreover, in respect of major maintenance DARS does not have determined in which cases it does not require a guarantee for the elimination of deficiencies during the guarantee period respectively when does it require a guarantee in the amount of five respectively ten percent of the value of the work performed.

## **Audit of operations of the Slovenian Research Agency (ARRS)**

In auditing the efficiency of ARRS in conducting its research activity in 2008 and in the first half of 2009, the Court of Audit established that ARRS failed to provide external evaluation and achieve the planned ratio between research projects and programmes. ARRS did not keep adequate records on the research equipment. In allocating funds for individual fields within sciences, it did not conduct analyses in order to establish which fields would be supported as a matter of priority. ARRS did not provide for the selection of the most quality research projects respectively programmes. The measures and criteria it used in the assessment of research projects and applications for co-financing the purchase of research equipment were not clear and thus did not enable a transparent assessment of applications. In the procedure of evaluation of research projects and programmes it did not provide enough objectivity in appointing reviewers respectively members of the assessment group responsible for the assessment of applications. The applicants were not ensured the protection of applicant rights at the European level.

In auditing the effectiveness of ARRS in conducting its research activity, the Court of Audit established that even though ARRS in its annual work programme determined long-term and annual implementation objectives and indicators, it did not enable the assessment of their achievement. ARRS exercised control over monitoring and implementing research projects and programmes only by means of annual, final and financial reports but it did not carry out controls and checks of operators.

ARRS did not issue detailed instructions for determining effects of research projects and programmes in applications as well as for reporting on the achievement of these effects. This also resulted in differently defined anticipated effects of research projects respectively programmes and it was not possible to verify the achievement of objectives. ARRS did not conduct special analyses of effects of the implementation of research projects respectively programmes. It informed the public about the effects by providing public publications of final reports. ARRS did not exercise sufficient control over documentation submitted by the recipient of funds together with the request for the disbursement of funds, since it did not examine the compatibility of the subject of the purchase with the research equipment indicated in the application.

ARRS published a list of the recipients of funds that were co-financed in the purchase of research equipment, yet it did not inform the public about the use and condition of the research equipment it co-financed. Moreover, ARRS did not monitor whether the recipients of funds presented their research equipment on their websites together with the price list for the use thereof. In the selection of research projects, programmes and equipment, it used the information system that did not have sufficient control established for providing adequate support in selecting and controlling the eligible use of funds.

## **Audits from the field of local communities**

In 2010, the Court of Audit was carrying out 20 audits in the field of local communities. It issued six audit reports and expressed opinions on the operations of six auditees. In all six audit reports, the audit objective was to express an opinion on the regularity of operations of a municipality. There were five qualified opinions expressed and one adverse opinion.

One post-audit report was issued in 2010, referring to the audit that was completed and its report issued in 2009.

In 2010, also a pre-audit report on the regularity of a part of operations of the Municipality of Ljubljana in 2008 and 2009 was issued. The pre-audit report presents findings in the field of public procurement, project implementation and long-term borrowing. It includes an estimation of risk in a particular field as well as a proposal for a potential audit implementation.

Table 3 illustrates issued audit reports, expressed opinions and potential demands to submit response reports.

Table 3: Issued audit reports, audit opinions and demands to submit response reports

<b>Audit report</b>	<b>Opinion on the regularity of operations</b>	<b>Response report</b>
Operations of the Municipality of Slovenj Gradec	qualified opinion	not necessary
Part of operations of the Municipality of Cankova	adverse opinion	not necessary
Part of operations of the Municipality of Osilnica	qualified opinion	not necessary
Part of operations of the Municipality of Škocjan	qualified opinion	not necessary
Part of operations of the Municipality of Turnišče	qualified opinion	not necessary
Part of operations of the Municipality of Vransko	qualified opinion	not necessary

All audit reports are available to the public in Slovene language on the website of the Court of Audit, <http://www.rs-rs.si>.

In 2010, one issued report covered complete operations of a municipality while five reports covered a part of operations of municipalities. The findings in these reports show that the scope of irregularities in the fields of operations, i.e. public procurement, salaries and borrowing, has been reduced compared to previous years. However, this reduction of the scope of irregularities cannot be observed in the field of transfers and incurrence of liabilities. For the Municipality of Cankova it was established that in the year 2008 it incurred realised expenditure that presented nearly EUR 480,000, i.e. 34 percent, more liabilities than planned, while the incurred realised expenditure of the Municipality of Škocjan was EUR 146,000, i.e. 5 percent, higher than assets planned. All six reports reveal that transfers are still partly allocated with direct contracts without any public tender.

Particular stress should be given to the disclosure of irregularities in lending money from the municipality budget and in public-private partnerships. The Municipality of Slovenj Gradec approved to five public institutes and two legal persons governed by private law eleven short-term loans in the amount of EUR 160,210, which is contrary to regulations. The same municipality concluded with a bank a direct contract on equity public private partnership without prior implementation of the procedure for the selection of an equity partnership contractor on the basis of a public tender and without complying with public procurement regulations.



All six audited municipalities eliminated the established irregularities, where possible, already during the audit procedure.

Four municipalities are included in the cross-sectional audit of the establishment of building rights. The objective of this audit is to express an opinion on the regularity and efficiency of the establishment of building rights. The decision for the audit is based on the assessment that municipalities establish building rights particularly with the purpose of building on lands with established building rights real estate for the need of municipalities (for example, kindergarten), for which after the construction municipalities pay rent. There exists a risk that municipalities in selecting a procedure for the implementation of legal transaction do not consider the entire legal relationship but only individual phases, which makes the real estate construction project irregular. With such projects, there is also a risk that in this way municipalities avoid regulations from the field of borrowing.

The year 2010 saw the beginning of implementation of the performance audit of managing capital investments as well as performance audit of establishing companies. The decision for both audits is based on initiatives and estimated risk that capital investments are not managed effectively and efficiently respectively risk that the establishment of the company to perform particular activities was not necessary and not in public interest. Inadequate was also the procedure for the establishment of the company.

In 2010, the Court of Audit also prepared questionnaires for all municipalities excluding urban municipalities (199 municipalities). The questionnaires contain questions from various fields, which are deemed to involve risk for the occurrence of irregularities (for example, salaries of civil servants, student work, copyright contracts, legal services, borrowing, public-private partnerships, building rights, establishment of legal entities that exclude, for example, public institutes, public funds, public companies). With these questionnaires, the Court of Audit initiated the practice of obtaining basic information about a part of operations of all municipalities in a particular year. The comparison of data between municipalities provides a source for identifying risk in operations.

## **Audits of non-commercial public services and associations**

Audit department B3 that implements audits of public institutes, Health Insurance Institute of Slovenia, Pension and Disability Insurance Institute of Slovenia and associations operating in the public interest issued 23 reports in 2010 and expressed opinions to 27 auditees. Audit objective in 17 audits was to express an opinion on the regularity of operations. Three audits had the objective to express an opinion on financial statements and the regularity of operations while on three occasions, the objective was to express an opinion in the framework of a performance audit. The Court of Audit expressed three opinions on financial statements, of which two were unqualified and one qualified. It also expressed 20 opinions on the regularity of operations, i.e. three unqualified opinions, 13 qualified opinions and four adverse opinions. It expressed three performance audit opinions, namely on the effectiveness of providing student nutrition in secondary schools, effectiveness of achieving objectives of the national programme by awarding concessions for the implementation of study programmes as well as on the efficiency of the retirement process.

Among the main weaknesses of the old salary system of public sector, which the Court of Audit had

warned about since the beginning of its operation, was non-transparency of salary system legal arrangement, which was due to the situation where individual stakeholders realised their demands for the increase of salaries in the form of various bonuses to basic salaries. With its cross-sectional audit *Regularity of transition to a new salary system* covering ten public institutes that operate in various fields of public sector (health care, education, culture, social services, science), the Court of Audit wanted to examine the achievement of the objectives of the reform. It examined the regularity of transition to a new salary system and thus determination and translation of nominal values of basic salaries for workplaces and basic salaries for civil servants as well as determination of a comparable amount of salary of a civil servant in accordance with regulations and collective agreements that were used prior to the payment of salary in line with Public Sector Salary System Act (ZSPJS), and a comparable amount of salary of a civil servant after the adoption of the Act. It also verified the regularity of determining and calculating other salary components, particularly various bonuses. According to the audit findings, public institutes took advantage of the changed salary system particularly for unjustifiably raising difficulty level of workplaces and allocating civil servants to workplaces they are not qualified for. New regulations did not eliminate irregularities and inconsistencies in determining basic salaries and bonuses in accordance with old regulations, because employers mainly used them as elements for translation of salaries. Since not all irregularities were eliminated during the audit, nine public institutes were required to implement corrective measures and disclose in their response reports the elimination of irregularities in determining and calculating salaries of civil servants after the translation respectively after 1 August 2008, in accordance with Article 3 and 3.a of ZSPJS.

The objective of the performance audit *Awarding concessions for the implementation of higher education study programmes in 2006 and 2007* was to express an opinion on whether national programme objectives were achieved with the awarding of concessions for the implementation of study programmes and whether funds for financing the implementation of the law study programme were used efficiently. The Court of Audit established that the Ministry of Higher Education, Science and Technology failed to prepare a plan with criteria for measuring effectiveness and efficiency in achieving objectives of awarded concessions. Neither was prepared a plan of regional coverage of Slovenia with higher education institutions and programmes, the objectives and timetable of which would be in line with policies and objectives of the national programme. Decision for the award of concessions in individual regions for particular programmes and certain number of study places was therefore not based on analyses of the existing situation as regards the achievement of national programme objectives and needs of the economy and labour market. No additional criteria for deciding about the call of certain study programmes were defined, even though criteria from strategic documents were complied with in the selection of contractors. In the contract on the concession for the implementation of the law study programme, duties of a concessionaire, control and sanctions are formally defined in detail, but at the operational level controls are not established in a way that would enable the assessment whether public interest is adequately secured. It is impossible to compare cost-efficiency of the implementation of equivalent or similar study programmes among different contractors, since costs of study activity implementation by individual study programmes are not being monitored and reasons for differences between the same programmes at various faculties not established. The award of concession for the implementation of the law study programme for example caused the increase of the number of study places in the study field where the number should, in compliance with the national programme policy, be decreased. Differences between the actual use of funds for a particular call for the award of concessions in higher education and the planned use of funds are not being established, because there is no plan of the use of funds in the period of concession implementation. As a possible consequence, the programmes financed are too expensive. The

competent ministry prepared as a corrective measure an analysis of regionalisation respectively of the network of higher education institutions and study programmes.

Audit of *the efficiency of the retirement process* implemented by the Pension and Disability Insurance Institute of Slovenia revealed many deficiencies, which led to the conclusion that in the period covered by the audit the Institute failed to achieve optimal effects with funds at its disposal for the implementation of its activities. There is no provision of information support to the work and decision-making at any level, neither are guaranteed uniform retirement process implementation and equal treatment of applications for the assessment of entitlements and regularity of assessed pension calculation. Development of application software is not in line with system software for which royalty has been paid, there is no adequate control integrated in the software, which would prevent the issue of decisions with irregular amounts while there is no appropriate division of tasks of clerks and controlling officers, which increases the risk for irregularities. It is not possible to verify in the Institute information system whether payments are received only by beneficiaries and for those rights they are actually entitled to. The Institute as an administrator of civil records of insured persons did not exercise logic control over data on insured persons and persons liable collected in accordance with the law, on the basis of which it would be able to regularly establish that certain records were missing; its control over the regularity of issued decisions was not efficient enough and it only exceptionally eliminated irregularities as regards the amount of pension or other entitlements. For the efficiency of operations to be improved, the Court of Audit demanded the implementation of corrective measures and submission of a response report. Recommendations were issued as well. The Institute is *inter alia* required to draw up a plan of activities to arrange civil records of insured persons and beneficiaries of rights, to examine the possibility of the use of extraordinary legal remedies which could in a particular case in a repeated procedure provide for the assessment of a regular amount of pension, to establish detailed methodology for the calculation of pension that will be considered in the software for the calculation of old-age pension, to prepare comprehensive instructions for the application of the retirement process software, as well as to specify the content and the course of control procedure, by defining competences and responsibilities of controlling officers and providing traceability of controls carried out.

In its cross-sectional regularity audit of *pricing and charging of care services* in four retirement homes, the Court of Audit, aside from findings that affected the opinion on the regularity of operations of an individual retirement home, put forward some joint findings. Pricing of social services in accordance with Rules on Social Services Price Formation Methodology, valid from 2006, is entirely based on the assumption of adequate cost accounting, which, however, is more an exception than a rule. To a certain extent, the retirement homes monitor costs by individual activities implemented, but do not take consistent account of criteria. Transfer of funds between activities that are otherwise financed from various sources (care - residents, relatives and municipalities; nursing - Health Insurance Institute of Slovenia) leads to the conclusion that the established method of dividing costs by cost bearers is too often used especially to satisfy the current need of a particular retirement home to justify its requirement for increasing the price of a particular service. Among the main reasons for the prices of care services not being based on actual costs of contractors, "standard of costs", i.e. the highest possible amount that the Institute can use for an individual category of costs in the calculation of the price of basic care service, should also be mentioned. This option is often used by retirement homes without adequate justification respectively appropriate evidence that their actual costs really exceed the highest amount allowed. It is important that on the basis of the price of basic care, the calculation of which is based on the Rules, prices of other retirement home standard services are formed, as well as prices of above-standard services offered to retirement home

residents. In the audited retirement homes, prices increased twice in 2007 and five times in 2008. Most of the increases in 2008 are due to the increased personnel costs as a consequence of the introduction of new salary regulations in the year concerned. In December 2007, the price of basic care per month amounted to approximately 77 percent of an average net pension including income support paid in the month concerned, while in December 2008 this price already amounted to 83 percent. In the period from December 2007 to December 2008, the increase of prices of basic care in audited retirement homes considerably exceeded the increase of net pensions (growth index of average net pension in the period from December 2006 to December 2008 is 114 whereas growth index of prices of basic care for this period is as high as 125). In December 2006, average net pension including income support paid in the State was sufficient for 40 days of basic retirement home care. In December 2007 it was sufficient for 39 days while in December 2008 it was only sufficient for 36 days of basic care.

List of issued audit reports:

- Regularity of operations of Retirement Home, Kranj (Dom upokojencev Kranj);
- Regularity of operations of Rest Home, Mengeš (Dom počitka Mengeš);
- Regularity of operations of Dr Jože Potrč Home, Poljčane (Dom dr. Jožeta Potrča Poljčane);
- Regularity of operations of By the Savinja Home, Celje (Dom ob Savinji Celje);
- Financial statements and regularity of operations of Health Insurance Institute of Slovenia (Zavod za zdravstveno zavarovanje Slovenije);
- Financial statements and regularity of operations of Pension and Disability Insurance Institute of Slovenia (Zavod za pokojninsko in invalidsko zavarovanje Slovenije);
- Awarding concessions for the implementation of higher education study programmes;
- Management of tangible assets of National Liberation Museum, Maribor (Muzej narodne osvoboditve Maribor);
- Management of tangible assets of National Museum of Contemporary History (Muzej novejše zgodovine Slovenije);
- Effectiveness of providing student nutrition in secondary schools;
- Regularity of operations of Ljubljana City Library (Mestna knjižnica Ljubljana);
- Financial statements and regularity of operations of Institute of metals and technology (Inštitut za kovinske materiale in tehnologije);
- Regularity of transition to a new salary system in Social Work Centre, Ljubljana Vič-Rudnik (Center za socialno delo Ljubljana Vič-Rudnik);
- Regularity of transition to a new salary system in Retirement Home, Postojna (Dom upokojencev Postojna);
- Regularity of transition to a new salary system in High School of Bežigrad (Gimnazija Bežigrad);
- Regularity of transition to a new salary system in Kranj Central Library (Osrednja knjižnica Kranj);
- Regularity of transition to a new salary system in Franc Rozman-Stane Primary School, Maribor (Osnovna šola Franca Rozmana-Staneta Maribor);
- Regularity of transition to a new salary system in Slovenian National Theatre Drama, Ljubljana (Slovensko narodno gledališče Drama Ljubljana);
- Regularity of transition to a new salary system in Dr Jože Potrč General Hospital, Ptuj (Splošna bolnišnica dr. Jožeta Potrča Ptuj);
- Regularity of transition to a new salary system in Jarše Kindergarten (Vrtec Jarše);
- Regularity of transition to a new salary system in Slovenian National Building and Civil Engineering Institute (Zavod za gradbeništvo Slovenije);
- Regularity of transition to a new salary system in Kočevje Health Centre (Zdravstveni dom Kočevje);

- Efficiency of retirement process.

All audit reports are available to the public in Slovene language on the website of the Court of Audit, <http://www.rs-rs.si>.

In 2010, also two post-audit reports referring to audit reports from 2009 were issued:

- Regularity of operations of the Foundation for the Financing of Organisations of the Disabled and Humanitarian Organisations in the Republic of Slovenia (Fundacija za financiranje invalidskih in humanitarnih organizacij v Republiki Sloveniji), and
- Regularity of operations of the council of Health Centre Trbovlje (Zdravstveni dom Trbovlje).

Six post-audit reports referring to audit reports from 2010 were issued:

- Regularity of operations of Retirement Home Kranj (Dom upokojencev Kranj);
- Financial statements and regularity of operations of Health Insurance Institute of Slovenia (Zavod za zdravstveno zavarovanje Slovenije);
- Financial statements and regularity of operations of Pension and Disability Insurance Institute of Slovenia (Zavod za pokojninsko in invalidsko zavarovanje Slovenije);
- Awarding concessions for the implementation of higher education study programmes;
- Management of tangible assets of National Museum of Contemporary History (Muzej novejše zgodovine Slovenije).
- Management of tangible assets of Ljubljana City Library (Mestna knjižnica Ljubljana).

## **Audits of commercial public service providers, privatisation and environment protection**

Audit department B4 covers the following fields: commercial public service providers, companies owned by the State or local communities, privatisation and environment protection.

In 2010, this audit department was carrying out 18 audits. By the end of 2010, it issued seven audit reports while 12 audits should be completed in 2011. In the seven issued reports, a regularity or performance audit opinion was expressed to 12 auditees. Namely, opinion on the regularity of operations to 2 auditees (in one audit) and performance audit opinion to 10 auditees (in five audits). The Court of Audit did not carry out financial audits, since most of the above listed auditees are obliged to have annual financial audits performed.

Aside from the aforementioned 18 audits, there were post-audit procedures implemented. In 2010, the Court of Audit issued seven post-audit reports, i.e. three of them referred to audit reports issued in 2009 and four of them were related to audit reports issued in 2010.

List of issued audit reports:

1. Regularity audit report on accounting and paying concession fee and water reimbursement for the exploitation of the Lower Sava River energy potential in the period from 2006 to the end of August 2009;
2. Performance audit report on operations of the Government of the RS, Ministry of Finance, Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. (KAD), and Slovenska

odškodninska družba, d. d. (SOD) in the sale of share of company Splošna plovba, d. o. o., Portorož, in the period from 2005 to the end of June 2008;

3. Performance audit report on providing transparency of financial relations and maintenance of separate accounts for different activities in the period from 2006 to the end of 2009;
4. Audit report on the remediation of old burdens of industrial waste and unauthorised construction waste landfills in the period from 1 January 2004 to 31 December 2008;
5. Performance audit report on providing a commercial public service of managing end-of-life vehicles from 2007 to the end of 2008;
6. Performance audit report on operations of DARS, d. d., in paying compensation and constructing Pluska–Ponikve motorway section overpass;
7. Coordinated international audit on climate change - international report.

All audit reports are available to the public in Slovene language on the website of the Court of Audit, <http://www.rs-rs.si>.

#### *International operations of audit department B4*

In 2010, the Court of Audit continued to participate in the audit by 14 Supreme Audit Institutions worldwide in the field of managing climate changes, which was completed with the issue of report "Coordinated international audit on climate change" in November 2010. In this audit, it cooperated with its experience and findings, obtained in carrying out the joint audit with Supreme Audit Institutions of Slovakia, Czech Republic and Austria on effectiveness and efficiency in achieving objectives of international agreements in the field of protection of air and ozone layer and management of climate changes.

A representative of department B4 also participated in INTOSAI and EUROSAI working groups developing audit methodology in the field of performing environmental and privatisation audits, audits of public private partnerships and regulatory authorities. As a representative of the Court of Audit, she is also a member of the Management Board of the Working Group on Environmental Auditing (WGEA).

#### *Other activities*

In 2010, department B4 itself or in cooperation with other departments and legal department prepared 10 responses to the questions of auditees respectively at the initiative of the Government of the RS or ministries expressed its opinion on proposed acts or positions of individual ministries. A representative of department B4 participated in training procedures for obtaining the title state auditor respectively certified state auditor.

## **Performance audits**

Audit department B5 carries out performance audits, audits of objective and result based budget process implementation, audits of information systems. In 2010, the department was carrying out 15 audits and issued six reports, in which it expressed performance audit opinions to 21 auditees. Audit reports issued by department B5 in 2010 are:

- Audit report on the aid of the Republic of Slovenia in case of natural disasters;
- Audit report on rural development in the Republic of Slovenia;

- Audit report on the effectiveness of implementation of the programme Young Researchers;
- Audit report on the achievement of objectives of traffic inspection;
- Audit report on the system of awarding, assessing and paying exceptional pensions;
- Audit report on the accessibility of pre-school education.

All audit reports are available to the public in Slovene language on the website of the Court of Audit, <http://www.rs-rs.si>.

The submission of a response report was demanded in two out of six issued audit reports. In 2010, the Court of Audit issued two post-audit reports, of which one referred to the audit report on the efficiency of information system, issued in 2009. The implementation of all five corrective measures, demanded from both auditees, was considered adequate.

Audits implemented by audit department B5 in 2010, were highly diverse as regards their content, scope and audit approaches, since the scope of the department for performance audits is not limited to the nature of work of auditees. All audits of department B5 in 2010 stood out by their materiality, influence of audit scope, public visibility, attention among expert public and changes made to individual audited systems, yet only three are explained in more detail.

### ***Audit of rural development in the Republic of Slovenia***

With the issue of audit and post-audit reports in 2010, the Court of Audit completed the extensive thematic audit of the effectiveness of the Ministry of Agriculture, Forestry and Food in achieving objectives of rural development policy in the period from 2003 to 2008. Several programmes were being implemented in this period (SAPARD, SPD, RDP 2004-2006 and RDP 2007-2013). Based on the assessment that the Ministry was not entirely effective in achieving objectives, the Court of Audit, aside from demanding the submission of a response report, provided a series of recommendations, which should contribute to effective disbursement of EU funds and above all better achievement of rural development objectives. In June 2010, the audit report was also considered by the Committee on Agriculture, Forestry and Food of the National Assembly of the Republic of Slovenia.

### ***Audit of the aid of the Republic of Slovenia in case of natural disasters***

Assessment of the efficiency of the system of granting aid in case of natural disasters that occurred in the years 2007 and 2008 revealed that the aid to ensure basic living conditions was efficient but the subsequent phases of granting aid could be more efficient and more equal treatment of victims ensured (at least in case of natural disasters of the same type). The main recommendation of the Court of Audit referred to the examination of the existing system of aid in case of natural disasters, particularly in the sense of equality, suitability and sustainability of the existing system. Several other recommendations for the improvement of condition in all audit sub-segments were provided.

### ***Audit of the accessibility of pre-school education***

The Court of Audit also carried out the audit of establishing accessibility of pre-school education. It assessed effectiveness and efficiency of the Ministry of Education and Sport in improving accessibility of pre-school education after the issue of the audit report on the provision of pre-school education in the

period from 2003 to 2006 in February 2007. This is the case of the so called follow-up or repeated audit related to the field for which an opinion had already been expressed in the past. The repeated audit was directed towards changes announced by the Ministry in its report as a response to the first audit and the assessment of their effectiveness and efficiency. There were some improvements established (for example, enrolment of children in kindergartens) but at the same time some problems stayed the same. There is still a considerable difference in prices of the same programmes, high increase of kindergarten costs and a large number of rejected children. The Court of Audit did not demand a response report, yet it submitted several recommendations, of which the two the most important should be put forward. The Ministry is recommended to start conducting activities towards transferring salaries of employees to the state account and at the same time improve financial accessibility with the standardisation of programme prices at the state level and limit the increase of payments from parents and reduce their highest payments.

#### *Other activities*

In the first half of 2010, employees of department B5 participated in the organisation and holding of the Seminar on new approaches for the reduction of fiscal deficit, organised by the Court of Audit in Ljubljana. 32 representatives of more than 20 institutions from 11 European countries met at the Seminar. They presented and exchanged information on their approaches, roles and progress in the cooperation of various institutions (notably audit and fiscal institutions) aiming to reduce tax evasion in the field of VAT, particularly approaches with the use of information technologies. The participants have and will be using the exchanged information for new views and ideas, particularly for approaches towards more efficient tax inspection and thus reduction of tax evasion.

By reviewing outcomes of performance audits, it can be established that the endeavours of department B5 in recent years have started to bring results. Personnel reinforcement, especially in the field of IT audits, where there is now a considerably stronger audit team, investment in knowledge, professional development, audit techniques and methods as well as ways of communicating with auditees and other public, have started to bring results in the form of audit reports which have not only received a lot of attention in the public but have also caused systematic changes in the operations of auditees.

## **Auditing the use of European Union funds and operations of public funds and agencies**

In 2010, the department for auditing the use of European Union funds and operations of public funds and agencies continued to follow a comprehensive approach to auditing the use of European Union funds in the Republic of Slovenia. The first half of the year saw the completion of audits which in their content built on the review of key risks for efficient disbursement of European Union funds, particularly weaknesses and necessary improvements of systems and operations of included institutions at the state level.

Control over the use of European Union funds in member states is exercised also with the so called control systems, i.e. verification of eligibility of payments before the actual payment of funds is made. Objective of the audit *Costs of control over the disbursement of European Union funds* was to provide as realistic picture as possible of actual costs of control exercised in procedures of obtaining EU funds and thus implementing EU policies. The national audit of the system of control over the payment of EU funds can provide extensive help to all involved institutions in planning and evaluating their work. As a member of



the core group of the joint international audit of control costs, the Court of Audit is also co-author of the joint international report, which is expected to be published in autumn 2011 at the Contact Committee of the European Organisation of Supreme Audit Institutions.

The third project of auditing the use of EU funds is an international parallel audit of four European Union member states, namely the audit of the so-called 5th all-European transport corridor. The audit examines the construction of the railway line from Lyon to Kiev that crosses the Slovenian territory. The initiative is a good framework for a more extensive analysis of implementing the national transport railway policy and some of its key projects.

The implementation of the national programme of international development cooperation is a subject of the audit which examines the involvement and operations of the Republic of Slovenia within the international network of official development assistance, i.e. assistance offered by developed countries in support of economic, social and political situation of developing countries. In this audit, the system of granting aid was audited, as well as forms of legal organisation of the subjects involved and the potential influence of these forms on the disposal of public funds.

In the field of public agencies and funds, the department audited the Public Agency for Technology, which is one of key institutions in the implementation of programmes and policies for the promotion of entrepreneurship and competitiveness. The Court of Audit assessed the regularity of Agency operations and examined in more detail its implementation of procedures for facilitating technology development and innovation and achievement of objectives thereof.

In 2010, department B6 issued three audit reports:

1. Audit report: Disbursement of funds from the European Union budget;
2. Audit report: Public railway infrastructure development; international audit - France, Italy, Slovenia, Hungary;
3. Audit report: Operations of the Public Agency for Technology of the Republic of Slovenia.

All audit reports are available to the public in Slovene language on the website of the Court of Audit, <http://www.rs-rs.si>.

## SOURCES USED FOR ACHIEVING THE OBJECTIVES

### Financial resources

In the adopted budget of the Republic of Slovenia for 2010 (Official Gazette of the RS, no. 99/09) there were funds allocated for the operations of the Court of Audit in the amount of EUR 6,493,038. These funds also included the planned earmarked funds in the amount of EUR 1,230.

Due to economic circumstances, there was an amendment of the budget of the Republic of Slovenia published in the Official Gazette of the RS, no. 56/10. There were budget funds in the amount of EUR 6,426,808 allocated to the Court of Audit as well as earmarked funds in the amount of EUR 1,230, i.e. EUR 6,428,038 in total.

The Government of the RS adopted the Decision no. 41012-63/2010/3 in order to reallocate funds for salaries from the budget line of the Court of Audit to the relevant budget line of the Ministry of Finance in the amount of EUR 100,000. Budgetary resources for the Court of Audit were thus reduced. The valid financial plan for 2010 amounted to EUR 6,366,168, of which EUR 39,360 is represented by earmarked funds.

Already in the year 2009, activities agreed in the contract with the National Audit office, United Kingdom (support of operations of the supreme audit institution of the Republic of Kosovo) started to be performed. Earmarked funds in the amount of EUR 38,960 were received for the participation in the CARDS (Community Assistance for Reconstruction and Stabilisation) project in 2010. The remaining earmarked funds come from the sale of tangible assets in the previous year.

The Court of Audit used EUR 6,014,412. The implementation of the financial plan compared to the valid respectively adopted financial plan represented 94 percent.

On the basis of the comparison of expenditure with the valid financial plan it can be concluded that in 2010 there were no major discrepancies between the planned and used funds. Compared to the previous year, the Court of Audit used EUR 753,933 less, i.e. the use was 11 percent lower. The indicated percentage was mainly the consequence of the final acquisition of business premises on Slovenska cesta 50, Ljubljana. The amount of EUR 741,221 was used for the acquisition of these premises in 2009.

Table 4: Realisation of expenditure in 2010 compared to the adopted financial plan - revised budget (column 2) and the valid financial plan (column 3)

Title	Financial plan	Valid financial plan	Expenditure 2010	Use index	Use index
1	2	3	4	5= (4:3)*100	6=(4:2)*100
<b>Salaries</b>	<b>4,770,595</b>	<b>4,672,639</b>	<b>4,569,329</b>	<b>98</b>	<b>96</b>
Salaries and bonuses	4,432,742	4,325,765	4,245,713	98	96
Pay for annual leave	93,304	93,304	92,209	99	99
Recovery of costs and compensations	210,030	211,596	208,775	99	99
Performance bonus		7,455	7,455	100	
Over time bonus	1,600	1,600	204	13	13
Other payments to employees	32,919	32,919	14,973	45	45
<b>Contributions of the employer</b>	<b>761,280</b>	<b>761,609</b>	<b>737,378</b>	<b>97</b>	<b>97</b>
Contribution to the Pension and Disability fund	395,383	395,564	384,813	97	97
Health insurance contribution	307,818	307,963	296,414	96	96
Employment contribution	2,681	2,682	2,506	93	93
Contribution for parental protection	4,468	4,470	4,181	94	94
Collective supplementary pension insurance premiums	50,930	50,930	49,464	97	97
<b>Material costs</b>	<b>717,433</b>	<b>754,020</b>	<b>592,042</b>	<b>79</b>	<b>83</b>
Office and general material and services	202,843	197,843	158,962	80	78
Specific material and services	21,480	41,280	35,073	85	163
Energy, water, communal services	96,150	96,150	66,515	69	69
Transport costs and services	40,770	47,822	31,304	65	77
Expenditure for business trips	94,060	84,224	74,273	88	79
Routine maintenance	48,385	64,385	54,588	85	113
Rents and leases	94,645	106,645	89,828	84	95
Other operative expenditure	119,100	115,671	81,499	70	68
<b>Investments and major maintenance</b>	<b>178,730</b>	<b>177,900</b>	<b>115,663</b>	<b>65</b>	<b>65</b>
Purchase of means of transport	1,230				
Purchase of equipment	76,500	76,900	67,319	88	88
Investments and major maintenance	56,000	30,000			

Purchase of non-material assets	45,000	71,000	48,344	68	107
<b>TOTAL</b>	<b>6,428,038</b>	<b>6,366,168</b>	<b>6,014,412</b>	<b>94</b>	<b>94</b>

Table 5: Comparison of realisation of expenditure in 2010 with expenditure in 2009

Title	Expenditure 2009 in Euro	Expenditure 2010 in Euro	Use index
1	2	3	4=(3:2)*100
<b>Salaries</b>	<b>4,618,075</b>	<b>4,569,329</b>	<b>99</b>
Salaries and bonuses	4,243,668	4,245,713	100
Pay for annual leave	90,776	92,209	102
Recovery of costs and compensations	203,697	208,775	102
Performance bonus	30,782	7,455	24
Over time bonus	381	204	54
Other payments to employees	48,771	14,973	31
<b>Contributions of the employer</b>	<b>743,869</b>	<b>737,378</b>	<b>99</b>
Contribution to the Pension and Disability fund	386,466	384,813	100
Health insurance contribution	301,874	296,414	98
Employment contribution	2,554	2,506	98
Contribution for parental protection	4,258	4,181	98
<b>Collective supplementary pension insurance premiums</b>	<b>48,717</b>	<b>49,464</b>	<b>102</b>
<b>Material costs</b>	<b>576,321</b>	<b>592,042</b>	<b>103</b>
Office and general material	161,032	158,962	99
Specific material and services	14,501	35,073	242
Energy, water, communal services	72,207	66,515	92
Transport costs and services	36,717	31,304	85
Expenditure for business trips	79,350	74,273	94
Routine maintenance	41,209	54,588	132
Rents and leases	80,098	89,828	112
Other operative expenditure	91,207	81,499	89
<b>Investments and major maintenance</b>	<b>830,080</b>	<b>115,663</b>	<b>14</b>
Purchase of buildings and premises	741,221		
Purchase of means of transport	15,275		
Purchase of equipment	47,989	67,319	140
Major maintenance and renovations	2,325		
Purchase of non-material assets	23,270	48,344	208
<b>TOTAL</b>	<b>6,768,345</b>	<b>6,014,412</b>	<b>89</b>

## Balance sheet

### Fixed assets

#### Data on the increase or decrease of own tangible and intangible fixed assets

In 2010, equipment and small inventory in the amount of EUR 103,346 were acquired. Software and hardware represented the highest share of equipment purchase.

Upgrading of SPIS, a system for conducting documentary operations, including installation and user training, was completed in January 2010. In line with the user needs, rules and instructions for recording documents were amended and updated during the year. Information system upgrade costs amounted to EUR 15,626.

Several new software versions were purchased (IMiS Suite licence, IMiS/OCR Server, ARC Serve, Idea). Signing the Microsoft Enterprise Agreement 6.6 MA contract in the previous year enabled the purchase of additional server software licences. The value of the purchased software amounted to EUR 20,032.

The Court of Audit also purchased a considerable number of notebooks and other hardware in the amount of EUR 63,643. The purchase of notebooks amounted to EUR 30,147. The amount of EUR 28,229 was designated for the purchase of server software as well as EUR 5,267 for the purchase of other necessary hardware.

The purchase of office and similar equipment represented the amount of EUR 3,568.

In 2010, the Court of Audit acquired small inventory in the amount of EUR 477, of which it received protocol gifts of small value in the amount of EUR 355.

Due to certain equipment being technically and technologically out-of-date and damaged, there came to a removal of intangible and tangible fixed assets in 2010. Software in the amount of EUR 65,473 and tangible fixed assets in the amount of EUR 24,929 were thus removed from use. Based on the Decision of the Government of the RS no. 47803-127/2010/4 of 25 May 2010, the right of management of tangible assets (hardware) in the amount of EUR 22,683 was transferred from the Court of Audit to the Dolfka Boštjančič Training, Occupation and Care Centre, Draga, Ig.

The value of intangible and tangible fixed assets as of 31 December 2010 represented EUR 3,686,397, which is EUR 154,587 less compared to the previous year.

## **Current assets**

### **Data on outstanding receivables from the previous year**

As of 31 December 2010, there were short-term receivables and deferred expenses and accrued revenues in the amount of EUR 509,260 disclosed in the balance sheet of the Court of Audit.

The receivables refer to:

- receivables for accounted and paid salary compensation for the period of performing military duty towards the Ministry of Defence, Bohinjska Bela Military Post, in the amount of EUR 147,
- receivables for accounted and not paid salaries and taxes for December 2010 and for provided and not paid services and supplies in December 2010 in the amount of EUR 492,228 (out of that EUR 451,944 for salaries and taxes, EUR 514 for contributions for employment of the disabled, EUR 184 for the reimbursement of fieldwork costs as well as EUR 39,586 for services and supplies),
- receivable against the Institute of Public Health of the Republic of Slovenia for an unpublished magazine in the amount of EUR 10,
- receivables for accounted salary compensations in the amount of EUR 14,159 and other receivables in the amount of EUR 2,716.

All listed receivables are presented in the balance sheet as of 31 December 2010, and are payable in 2011.

## **Short-term financial liabilities**

### **Data on outstanding financial liabilities from the previous year**

As of 31 December 2010, there were short-term financial liabilities and accrued expenses and deferred revenues in the amount of EUR 521,931 disclosed in the balance sheet of the Court of Audit.

The financial liabilities refer to:

- short-term financial liabilities to employees in the amount of EUR 388,729, arising from the calculation of salaries for December 2010 and recovery of business travel costs in 2010,
- short-term liabilities to suppliers in the amount of EUR 39,586 for the material supplied and services provided in November and December 2010,
- other short-term liabilities from operations in the amount of EUR 63,913 for calculated tax on salaries for December 2010,
- liabilities from financial lease that are payable in 2011 in the amount of EUR 12,671,
- unpaid income, which includes EUR 866 of the envisaged income of the Supreme Audit Institution of the United Kingdom,
- preliminary accounted expenditure for imputation in the amount of EUR 1,861 and accounted compensations of salaries for December 2010 in the amount of EUR 14,305.

All listed liabilities are presented in the Balance Sheet as of 31 December 2010, and are payable in 2011.

## Own funds and long-term liabilities

In the framework of the general fund, the Court of Audit disclosed fund of tangible and intangible fixed assets in the amount of EUR 3,686,397, reduced for the general fund related to long-term financial liabilities arising from the contract on gradual acquisition - financial lease in the amount of EUR 12,671 for the software.

As of 31 December 2010, the Court of Audit has other long-term liabilities in the amount of EUR 12,671 recorded in its books of account, arising from the financial lease contract. The stated liability is payable in 2011 and belongs to short-term liabilities.

## Employment

There were 134 civil servants and officials employed at the Court of Audit on 31 December 2010. Two civil servants are fixed-term employees (replacement due to maternity leave). This means that the number of employees remained the same compared to 2009.

In 2010, three official workplaces were published under open competitions as well as two professional-technical workplaces for a fixed term.

Two open competitions were successfully completed and two new employees recruited. No choice was made for the third official workplace. The recruitment of the *Head of Legal Department* was completed through an open competition already in the year 2009. In 2010, three new employees were thus employed for an indefinite period of time while two were recruited for a fixed term. In 2010, the Court of Audit recorded a turnover of 2.26 percent, which is less compared to 2009 (5.30 percent).

Figure 6: Turnover of employees in the period 2002-2010

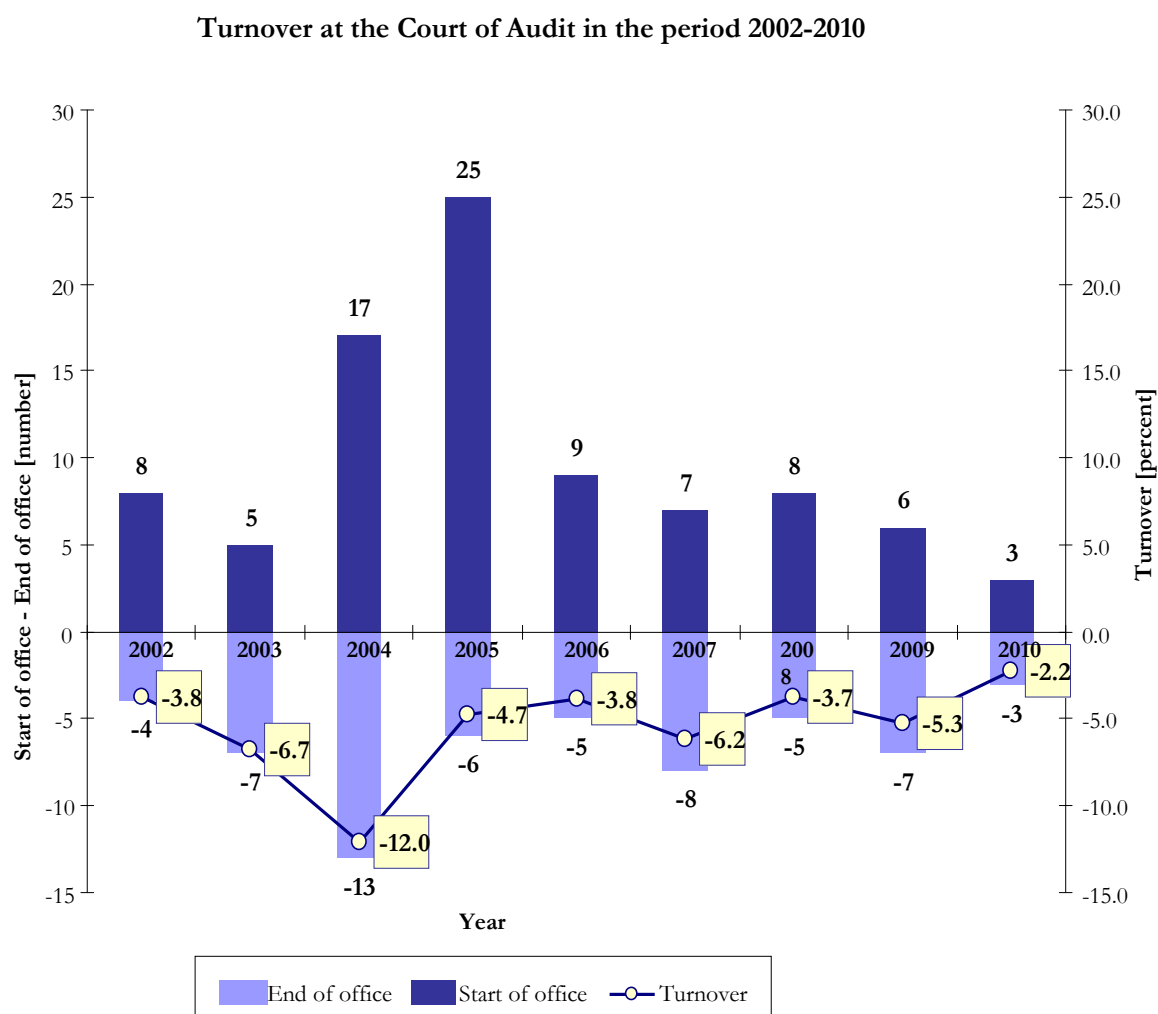




Table 6: Number of employees by workplaces

Work sector	No. of employees 31 December 2009	No. of employees 31 December 2010
Management		
• members	3	3
• supreme state auditors	6	6
• secretary general of the Court of Audit	1	1
<b>Total management</b>	<b>10</b>	<b>10</b>
Auditing		
• advisers	12	13
• deputy supreme state auditors	7	7
• principal auditors	24	33
• senior auditors	32	29
• auditors	18	11
<b>Total auditing</b>	<b>93</b>	<b>93</b>
Support services		
• head of the cabinet	1	1
• secretaries	11	12
• civil servants in support services	17	18
<b>Total support services</b>	<b>29</b>	<b>31</b>
<b>Total</b>	<b>132</b>	<b>134</b>

Table 7: Staff educational structure

Level of education or professional title	No. of employees 31 December 2009	No. of employees 31 December 2010
PhD	3	3
Master's degree, specialisation	28	31
University or high education	90	89
Post-secondary education	3	3
Secondary education	8	8
<b>Total support services</b>	<b>132</b>	<b>134</b>



## Revizijsko poročilo

Poslovanje Občine Radenci

## Revizijsko poročilo

Računovodski izkazi in pravilnost poslovanja  
Arboretuma Volčji Potok

## Revizijsko poročilo

Pravilnost poslovanja Mestne občine Velenje

## Revizijsko poročilo

Delovanje sveta zavoda Centra za usposabljanje,  
delo in varstvo Dolfke Boštjančič, Draga

## Revizijsko poročilo

Pravilnost in smotrnost poslovanja  
Javne agencije za tehnološki razvoj  
Republike Slovenije

## Revizijsko poročilo

Izvajanje Zakona o vodah

## Revizijsko poročilo

Ukinitev postopka likvidacije D.S.U., družbe  
za svetovanje in upravljanje, d.o.o. Ljubljana

## Revizijsko poročilo

Podeljevanje koncesij v zdravstvu -  
Ministrstvo za zdravje

## Revizijsko poročilo

Nacionalni stanovanjski program

## Revizijsko poročilo

Pravilnost poslovanja Mestne občine  
Slovenj Gradec

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