



REPUBLIC OF SLOVENIA
COURT OF AUDIT

AUDIT REPORT

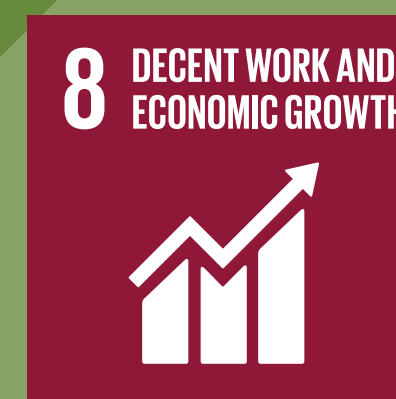
Operations of the public undertaking Waste Management Centre Puconci

Regularity audit

Audit period: 1 January 2017 to 31 December 2018

Efficiency of operations

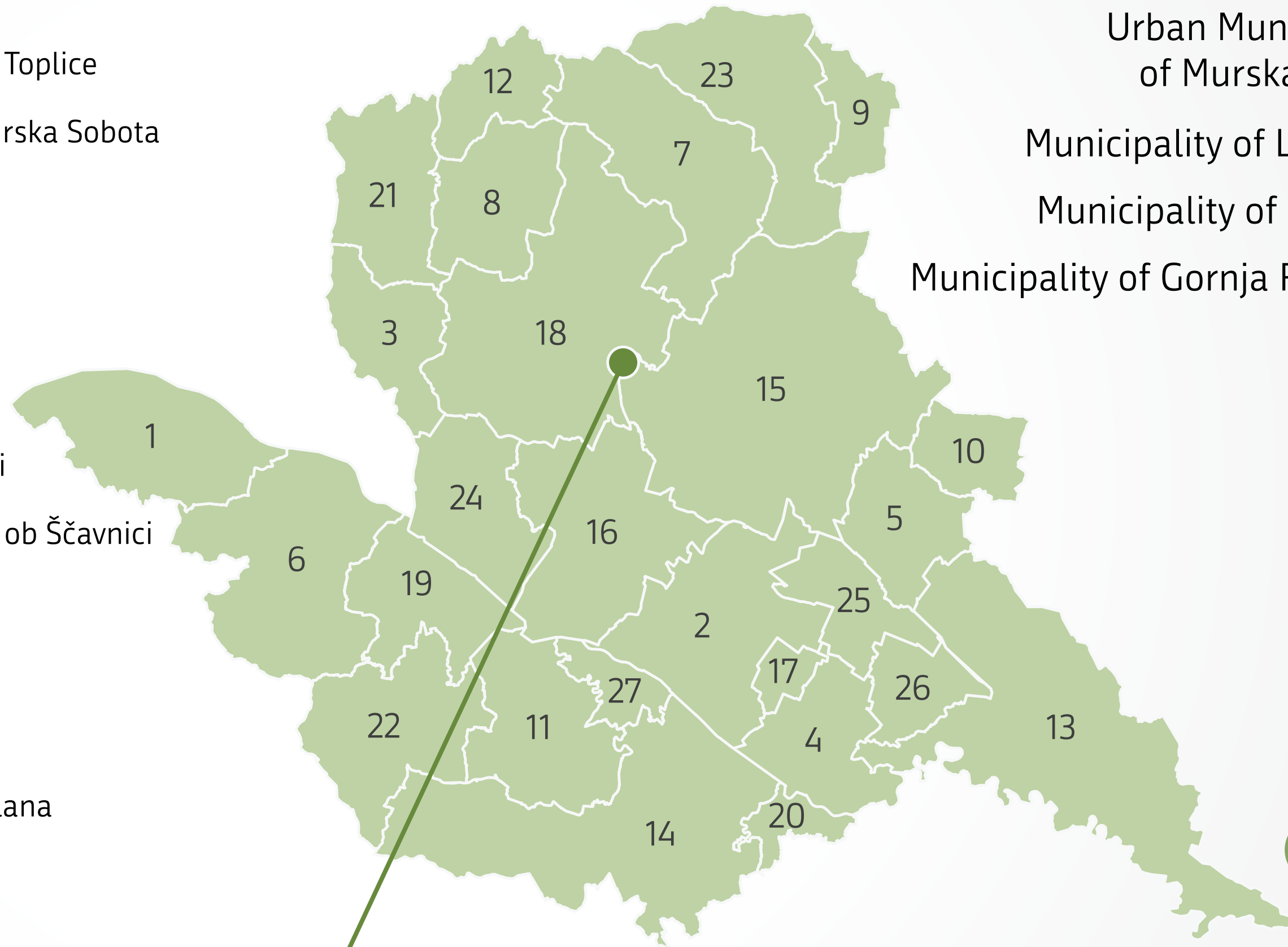
Audit period: 1 January 2015 to 31 December 2018



Who were the auditees?

27 municipalities

- | | |
|-----------------------------------|--|
| 1 Municipality of Apače | 15 Municipality of Moravske Toplice |
| 2 Municipality of Beltinci | 16 Urban Municipality of Murska Sobota |
| 3 Municipality of Cankova | 17 Municipality of Odranci |
| 4 Municipality of Črenšovci | 18 Municipality of Puconci |
| 5 Municipality of Dobrovnik | 19 Municipality of Radenci |
| 6 Municipality of Gornja Radgona | 20 Municipality of Razkrižje |
| 7 Municipality of Gornji Petrovci | 21 Municipality of Rogašovci |
| 8 Municipality of Grad | 22 Municipality of Sveti Jurij ob Ščavnici |
| 9 Municipality of Hodoš | 23 Municipality of Šalovci |
| 10 Municipality of Kobilje | 24 Municipality of Tišina |
| 11 Municipality of Križevci | 25 Municipality of Turnišče |
| 12 Municipality of Kuzma | 26 Municipality of Velika Polana |
| 13 Municipality of Lendava | 27 Municipality of Veržej |
| 14 Municipality of Ljutomer | |



The largest share is held by

Urban Municipality of Murska Sobota	27.31%
Municipality of Ljutomer	9.97%
Municipality of Lendava	8.94%
Municipality of Gornja Radgona	7.74%
In total	53.96%



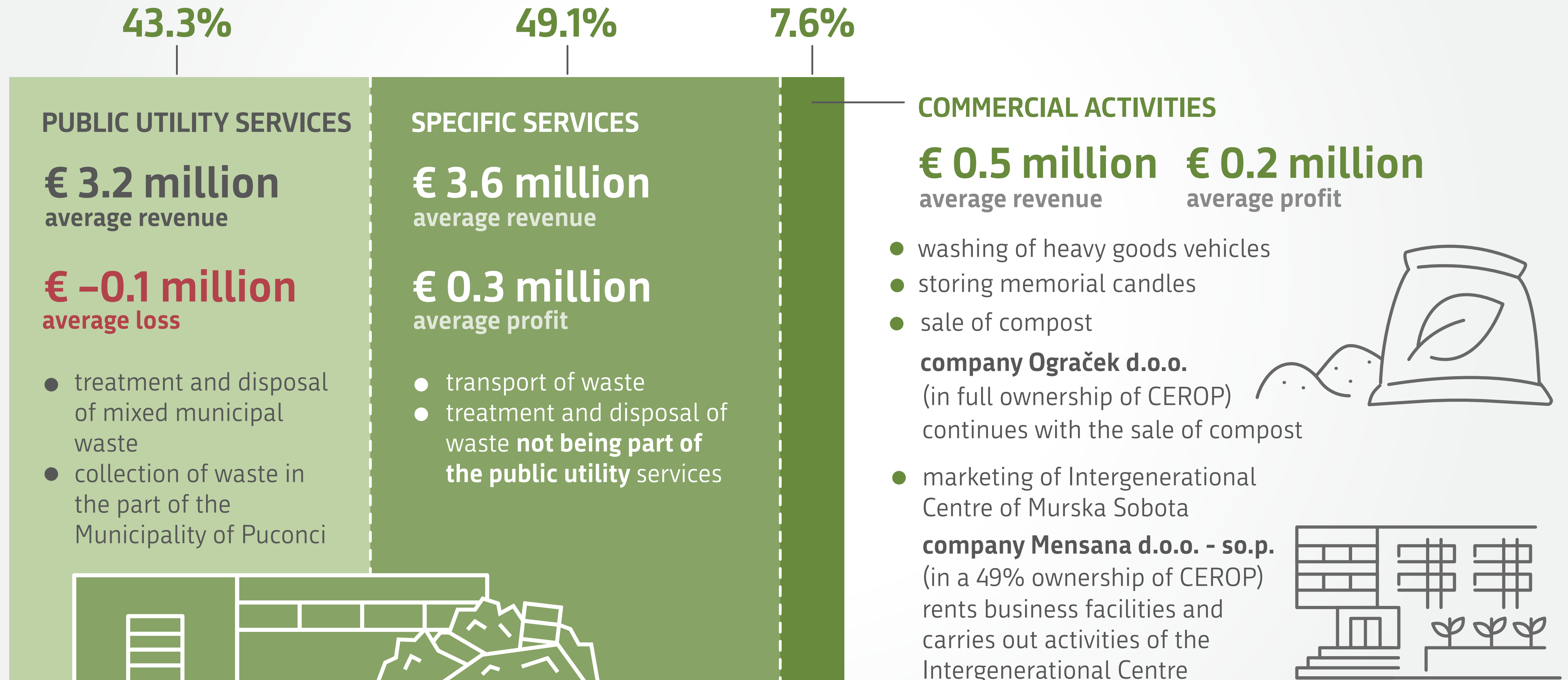
The public undertaking Waste Management Centre Puconci (CEROP)

is in the ownership of 27 municipalities.

Other municipalities | 46.04%

Services of the public undertaking CEROP

Average revenue in the period 2015-2018: **€ 7.3 million** Average profit: **€ 0.4 million**



What was audited?

1 Did the public undertaking CEROP correctly form prices of public utility services?

2 Did municipalities correctly set prices of public utility services?

4

Did municipalities efficiently manage and supervise the operations of the public undertaking CEROP?

3

Did the public undertaking CEROP carry out its activities (public and commercial services) in accordance with the purpose of its establishment and in a way which could not threaten the performance of public utility services?

REGULARITY

EFFICIENCY

Forming prices of public utility services

is complex and depends on the cooperation between the public undertaking CEROP and the municipalities, **placing considerable burden of in-payment forms on consumers.**



The MEDO* Decree lays down the manner of forming prices (methodology and responsibilities of the public undertaking CEROP as provider of public utility services).

The public undertaking CEROP:

- **failed to consider accounting guidance** for providers of public utility services
- **failed to appropriately draw up a study** on public utility services serving as a basis to the municipalities for setting the prices
- **failed to set the price** of public utility of waste collection **on the basis of the prescribed methodology**
- included **unjustified costs**
- **did not publish price lists appropriately**
- **did not fully consider the revenue from the balance payment of public utility services and the profit referring to specific services** that should contribute to the reduction of prices of public utility services
- **failed to appropriately present prices** on invoices

CONSEQUENCES

- **non-transparent charging of public utility services**
- **the profit that should reduce prices of public utility services not considered**
- **prices including unjustified costs**

* Decree on the Methodology for Determining Prices of Obligatory Municipal Public Services for Environmental Protection

Setting prices of public utility services

Municipalities:



- failed to (correctly) determine the **bases** for setting prices of public utility services
- the **amount of the rent charged** for infrastructure was understated and not recovered in due time
- approved the change of prices **in line with the inappropriate study**



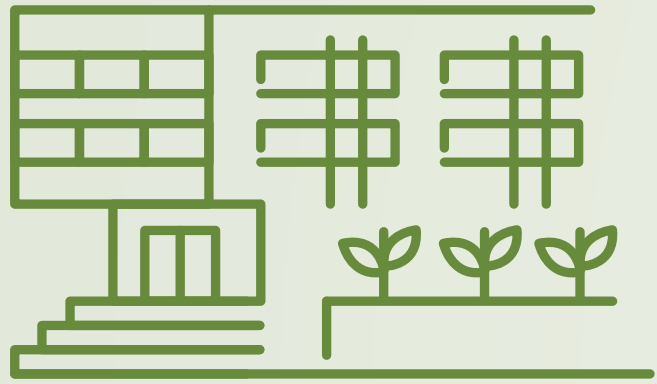
The **MEDO Decree** sets out responsibilities of municipalities, mostly **setting the prices** (in line with the study) and subsidies charged to the users of public utility service.

CONSEQUENCES

- the public undertaking CEROP determined the price incorrectly
- the municipalities approved the incorrectly determined price which the users of the public utility services were paying

Other activities and investments of the public undertaking CEROP

The public undertaking CEROP used public infrastructure not only for public utility services but also for specific services with profits of which it **inadmissibly co-financed investments in mainly** commercial activities



The public undertaking CEROP built **Intergenerational Centre of Murska Sobota** with the centre of reuse that should be financed from the sale of flats, business premises and parking spaces

€ 3.8 million
investment costs

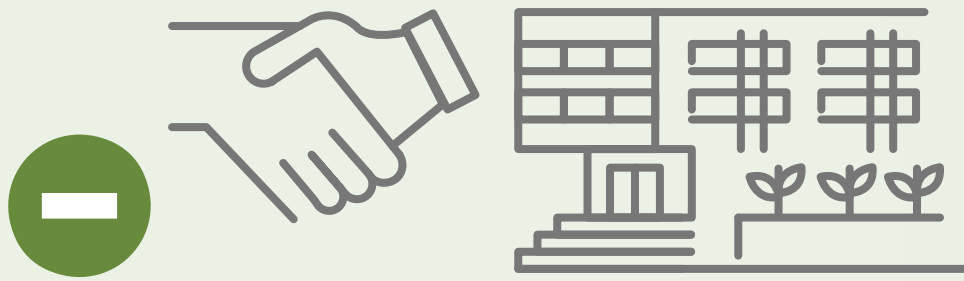
more than 60% of investment funds of the public undertaking CEROP in 2015-2018

- **48% higher costs** from those foreseen
- **financed with the profit from specific services** that should **reduce prices of public utility services**
- **failed to achieve planned revenue from sale**

The public undertaking CEROP founded **subsidiaries** but municipalities have **no proper managerial and public-financial control over them**

subsidiary Mensana

hired a part of premises and carried out activities **co-financed by the public undertaking CEROP in the amount of almost € 0.7 million (2015-2018)**



The public undertaking CEROP **conducted business transactions with the company Mensana without prior notice or approval at the shareholders' meeting**, whereby in some cases the director entered conflict of interests

subsidiary Ograček

purchased and sold **compost that was produced within the public infrastructure**



represents a risk to reduce the profit of the public undertaking CEROP that **should reduce the prices of public utility services**

CONSEQUENCES



implementation of public utility services is at risk, since the users paid too high costs of public utility services due to conduct of the public undertaking CEROP, moreover, financial stability of the public undertaking CEROP is at risk due to the investment in the Intergenerational Centre of Murska Sobota

Managing and control of municipalities over the public undertaking CEROP

COUNCIL of founders (mayors)

in the role of the authority governing municipalities regulates the prices and implementation of public utility services

- the decision-making method enabled **4 municipalities** (with major business share in the public undertaking CEROP) to **independently regulate public utility services**

Shareholders' meeting (27 members, by rule the mayors)

directs and controls the development and the business policy of the public undertaking CEROP

- cooperation of mayors was **contrary to the rules of integrity and prevention of corruption**
- the decision-making method **did not provide for appropriate protection** of the public undertaking's interests and the interests of municipalities with smaller business shares

– Municipalities failed to efficiently control forming the prices of public utility services

- failed to control defining the prices of public utility services
- despite the loss, failed to ensure that the public undertaking CEROP considered the issue when defining the prices of public utility services
- failed to provide that the profit of specific services reduced the total prices of public utility services

– Municipalities failed to efficiently manage and control the public undertaking CEROP when implementing other activities

- failed to control and provide that the public undertaking CEROP as an "in-house" services provider fulfilled the essential activities condition
- failed to prevent that the public undertaking CEROP carried out investments in commercial activities that could represent a threat to public utility services
- failed to prevent financing of commercial activities from profits that were intended for reducing prices of public utility services

CONSEQUENCES

- the municipalities failed to detect and prevent irregularities in defining prices of public utility services and inefficiencies in implementing activities of the public undertaking CEROP, what posed a threat to the implementation of public utility services in the area of municipalities

OPINION OF THE COURT OF AUDIT

- ➖ The Court of Audit expressed an adverse opinion on the **regularity** of defining and setting prices of public utility services of municipal waste management to the public undertaking CEROP and 27 founding municipalities.
- ➖ The public undertaking CEROP was **inefficient** in implementing its activities.
- ➖ 27 founding municipalities were **inefficient** in managing and controlling the operations of the public undertaking CEROP.



CORRECTIVE MEASURES

The public undertaking CEROP must among others:



develop an analysis of **possibilities of selling assets** not intended for the implementation of the basic activities



The municipalities must among others:

develop drafts **amendments of founding decrees**, including:

- **providing that mayors (not) attend the meetings** of shareholders of the public undertaking CEROP
- **forming a supervisory board of the public undertaking CEROP**
- **auditing professional bases** for setting prices of public utility services



develop a plan for **setting up legal status** related to non-compliance with the condition of **economic dependency**

RECOMMENDATIONS



The municipalities were recommended **to amend the founding decrees of the public undertaking CEROP** to ensure that decision-making (pertaining to conditions and prices of public utility services) of the council of founders could be based on equal share of votes of each municipality.

NON-COMPLIANCE WITH THE CONDITION OF ECONOMIC DEPENDENCY – HOW IT WORKS?

Since the municipalities awarded concession for the implementation of the public utility services to the public undertaking CEROP without a public call for tenders, **they have to ensure that the public undertaking CEROP as an internal service provider makes at least 80% of revenue by implementing activities that were conferred on it**, otherwise the admissibility of the implementation of public utility services is threatened, thus allowing the limiting of other commercial bodies that could represent competition to the public undertaking CEROP.



The public undertaking CEROP only by implementing tasks ordered by municipalities was **not able to facilitate public infrastructure** and was forced to look for other orders on the market.