



REPUBLIC OF SLOVENIA  
COURT OF AUDIT

# AUDIT REPORT

## Efficiency of the Slovenian Sovereign Holding in managing capital investments

**Performance audit**

Audit period: 1 January 2016 to 1 December 2017



# SSH is the key manager of capital investments of the State

data as of 31 December 2017

## SLOVENIAN SOVEREIGN HOLDING

€ 10.9 billion  
91 companies

**KAD**  
Pension Fund  
Management

€ 552 million  
40 companies

**GOVERNMENT**  
directly  
managed by\*

€ 369 million  
6 companies

**BAMC**

€ 99 million  
68 companies

### THE PURPOSE OF THE SSH

- Dividing the function of the State as the owner of the assets from its other functions
- Pursuing a concentrated and transparent management of the capital investments of the State

### FIELDS COVERED BY SSH

- Denationalisation
- Settlement of liabilities related to compensation/indemnity
- Managing assets



How efficient was SSH in managing capital investments in 2016 and 2017?

## Monitoring and implementing the strategy and annual management plans



### IS IT REGULATED IN INTERNAL DOCUMENTS?

SSH **set up** in its internal documents **the bases for efficient monitoring** of business operations of companies, but it

- **failed to regulate in detail the manner of recording** management activities and decision-making of the SSH bodies
- **failed to regulate the cooperation with other stakeholders** when developing annual management plans.



### HOW IS IT CARRIED OUT IN PRACTICE?

SSH **implemented several management activities**, monitored business operations and objectives of companies, but it

- **failed** to provide appropriate **information support**
- **failed to provide systematic documentation** of its activities and obtained information, thus it was **not all the time transparent and traceable** in its actions.

## Reimbursement of costs of managing capital investments of the Republic of Slovenia



**Contracts concluded with the Ministry of Finance did not define eligible costs in detail**

which are the basis for defining payments for managing capital investments owned by the Republic of Slovenia and failed to define their justification.

## Deciding on voting at general meetings



### IS IT REGULATED IN INTERNAL DOCUMENTS?

SSH **set up** in its internal documents the **bases and internal controls** related to voting positions at the general meetings

- but it **failed to fully define bases** for decision-making of the management board when defining the amount of **companies' dividends**.



### HOW IS IT CARRIED OUT IN PRACTICE?

**SSH regularly attended general meetings** of companies and publicly published bases for voting and reports on attendance at the general meetings,

- but when adopting voting positions it **failed to always act transparently and traceable** and in line with internal documents.



### HARMONISATION WITH KAD – PENSION FUND MANAGEMENT

SSH failed to **harmonise voting positions with KAD – Pension Fund Management in all cases**, despite the provisions of the act (mainly on voting proposals) and it failed to arrange it in internal documents.

# Nomination procedures to appoint members of the supervisory boards of companies managed by SSH

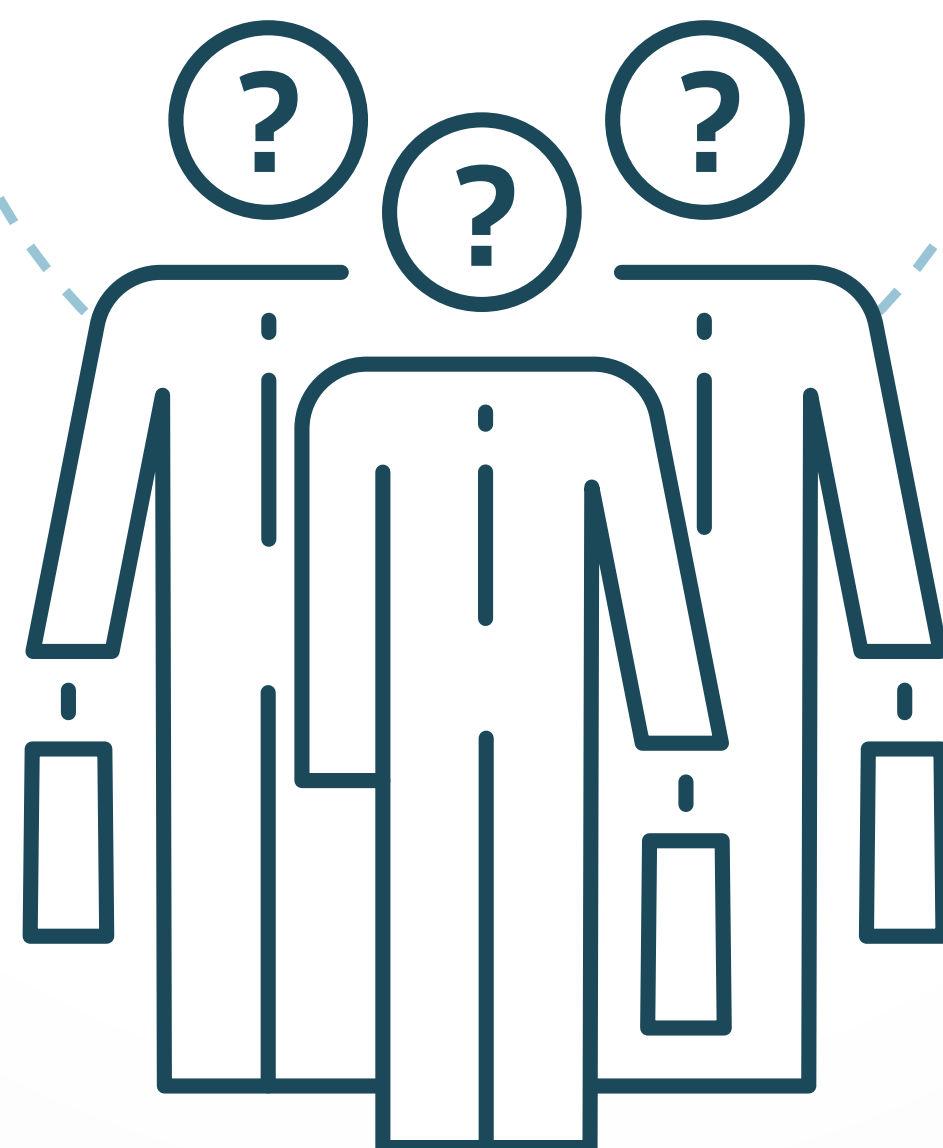
## IS IT ARRANGED IN INTERNAL DOCUMENTS?



SSH **set up** in its **internal documents bases for nomination procedures**, but

- ❌ it **failed to provide objectivity** of all measures **for assessing the candidates**
- ❌ it **failed to thoroughly define measures** to assess the compliance with the legal conditions
- ❌ it **failed to arrange the nomination procedures** and rules to manage risks in cases of **appointing members of management board of SSH and employees of SSH**

**The president and a member of the management board of SSH elected to the supervisory board** of two public limited companies



- unequal treatment of all candidates
- not transparent procedure
- committee failed to examine all legal requirements

## HOW IS IT CARRIED OUT IN PRACTICE?

- ❌ SSH **failed to set up sufficient internal controls** when carrying out nomination procedures
- ❌ **failed to provide in all cases equal treatment** of all candidates, objectivity, traceability, transparency and consistency when considering legal conditions
- ❌ **supervisory board of SSH** within its control function **failed to propose amendments to nomination procedures** in order **to eliminate weaknesses**



# OPINION OF THE COURT OF AUDIT



**SSH** was **partially efficient** in managing capital investments in the period 2016–2017.

SSH has already during the audit procedure **implemented many measures to improve the efficiency of its operation.**

The Court of Audit proposed **several recommendations to SSH**, among others to:



send a **proposal to amend the management strategy** of capital investments (amendments of the management objectives) to the Ministry of Finance



receive from the authorised ministry the **opinion on legal condition** – certificate on rights and obligations of members of supervisory boards – and eliminate the risk of unequal treatment of candidates



resume, in cooperation with the Ministry of Finance, **all activities to define** the manner of claiming the **reimbursement of costs related to management of capital investments** owned by the Republic of Slovenia (defining eligible costs and the manner of justifying them)



review the possibility of **arranging** procedures for harmonisation of **voting positions with KAD** – Pension Fund Management



**supplement internal documents** in several fields

# MEASURES AFTER THE ISSUE OF THE AUDIT REPORT

## The Court of Audit shall notify



? the Government

about **the disclosed weaknesses of the act on SSH**, among others about the unclear legal **definition of political independence** – a condition that must be met by members of supervisory boards, and the issue of providing evidence or verification thereof.



the Ministry of Finance

about the **poor definition of eligible costs** that are reimbursed to SSH for managing capital investments owned by the Republic of Slovenia in the contracts with SSH.



The Court of Audit **expects that the proposer of the new act** related to managing capital investments of the State **shall review in detail and with due care all findings from the audit report** and shall consider them when drawing up the proposal of the new act.