



REPUBLIC OF SLOVENIA  
**COURT OF AUDIT**

# AUDIT REPORT

## **Efficiency of operations of Slovenski državni gozdovi, d. o. o. (SiDG)**

**Performance audit**

Audit period: 1 January 2019 to 30 June 2020



**SiDG** manages State-owned forests, covering  
**12% of the total area of the Republic of Slovenia,**  
namely **21% of all forests in Slovenia.**

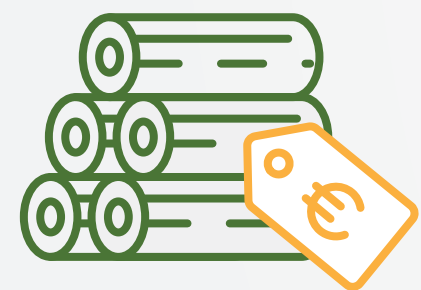
100% State ownership  
established in 2016

**Audited was a part of the SiDG's operations  
pertaining to:**

- **MANAGING OF STATE-OWNED FORESTS**

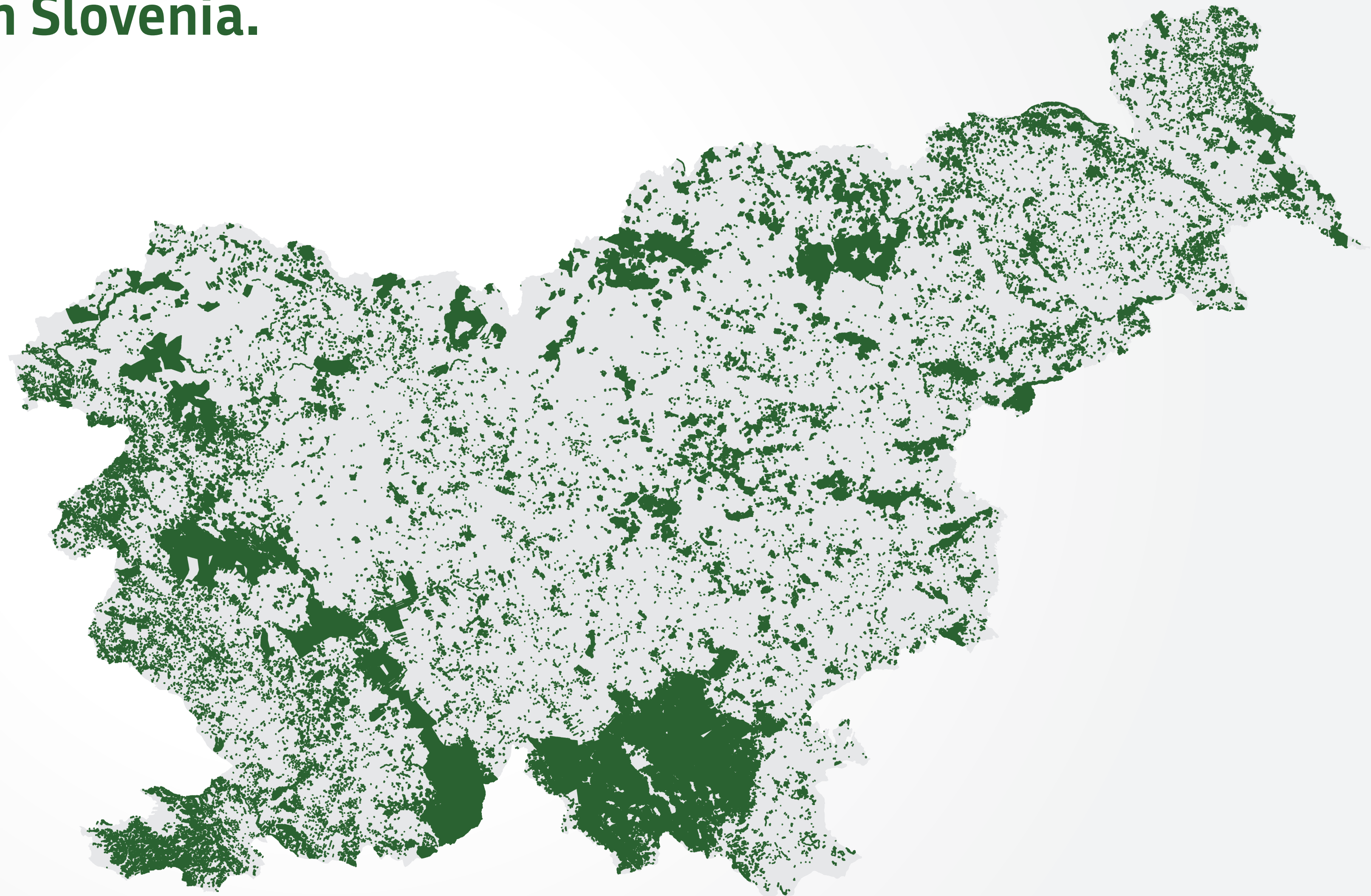


felling and skidding  
of trees



sale of timber  
assortments

- **ESTABLISHING AND  
ORGANISING CENTRES  
FOR WOOD COLLECTING  
AND PROCESSING**





Strategic objective of SiDG was the annual felling of 1.5 million m³ of trees



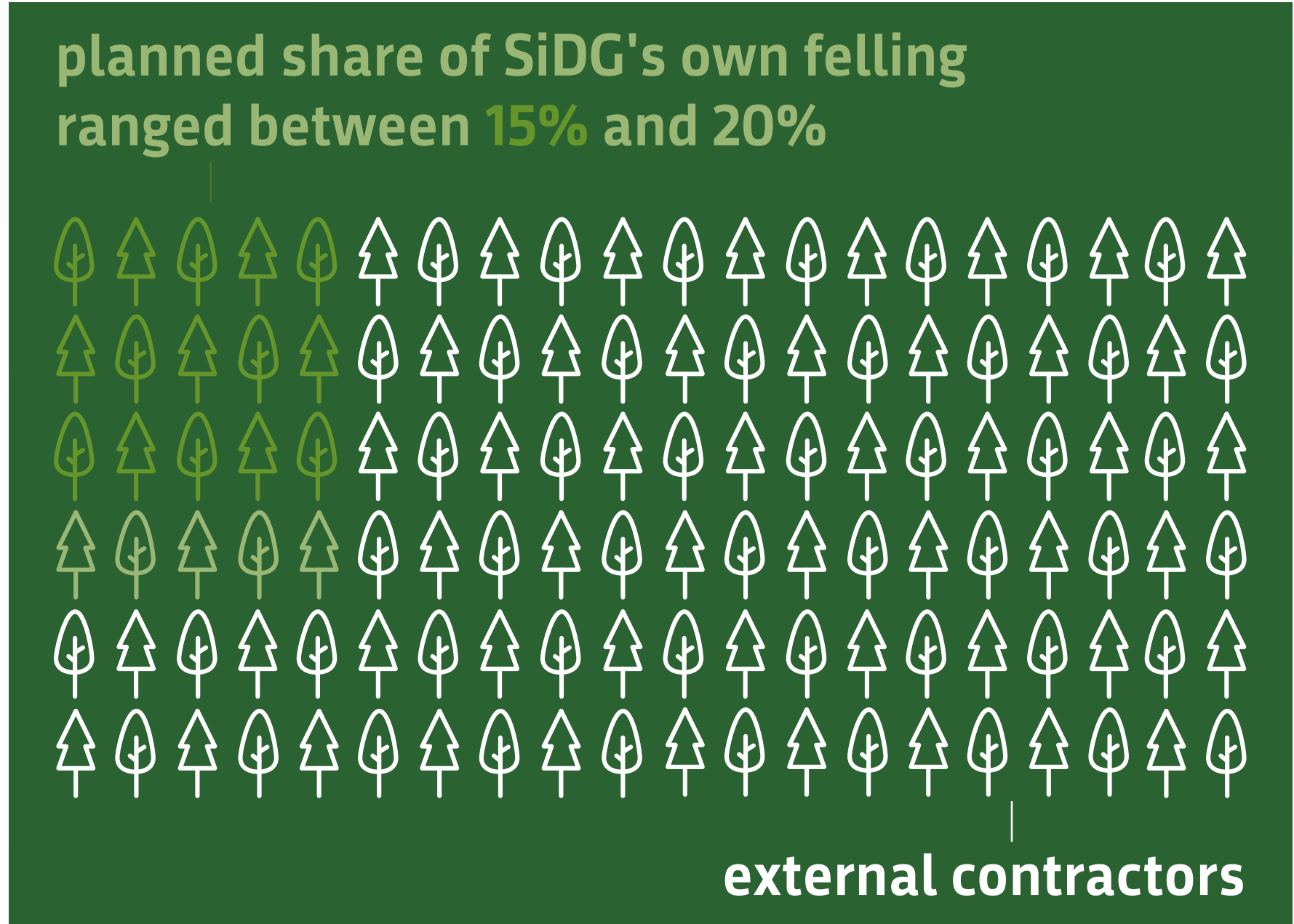
Internal rules had shortcomings respectively were inappropriate


- the risk of unauthorised taking the possession of wood, felling without prior decision issued by the Slovenia Forest Service,
- rules and a criterion for selecting external contractors of felling and skidding not harmonised.




Shortcoming in the information system and records

- manual record keeping,
- occurrence of errors,
- incomplete and unreliable data,
- comprehensive monitoring of the process of felling and skidding not possible.






By the issue of the audit report, SiDG upgraded its information system and adopted certain internal rules, thus establishing appropriate control procedures.



Incorrect calculation of the estimated value of public procurements pertaining to the purchase of forestry machines and inappropriate criterion for selecting economically most advantageous tenderer.

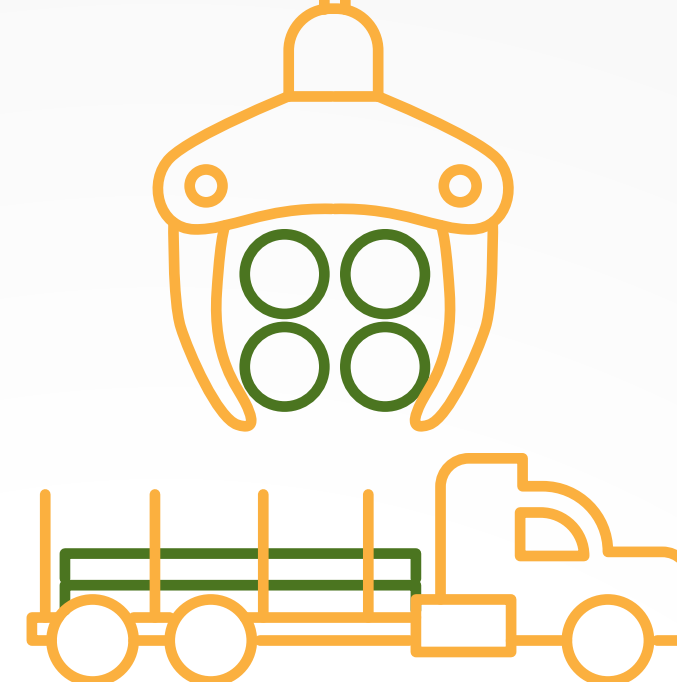


Lack of sufficient control procedures

- volume of felled trees not monitored throughout all felling and skidding stages,
- non-performance of contractual obligations by external contractors, whereby SiDG failed to take action as foreseen in the contracts,
- incorrect external contractors selection procedures,
- only random controls undertaken in those forests where felling is not carried out.

## SALE OF TIMBER ASSORTMENTS

In 2019, SiDG sold 1.35 million m<sup>3</sup> of timber assortments



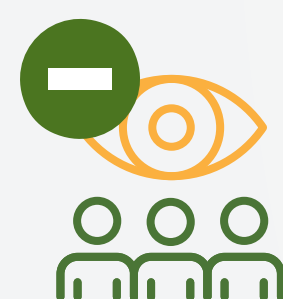
in the amount of  
**€ 65 million**  
at an average price of  
€ 48.4/m<sup>3</sup>

of which  
70% of total  
sales were made  
by long-term  
contracts



### Shortcomings in internal rules

- stages of sales process for each sales method **not outlined**,
- monthly framework plans of supplies to buyers **not laid down and implemented**,
- record keeping **not established** for all sales methods.



**Inefficient control over buyers with long-term contracts and over processing of timber assortments** (bought from SiDG) in the plants of buyers.



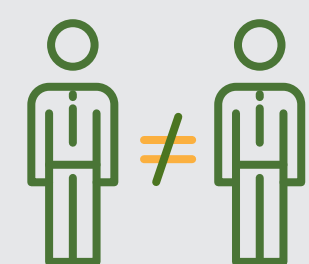
By April 2020, **monitoring of contract implementation not established in a way** to prevent not allowed overruns of contractually set quantities.



Within public calls for tenderers related to concluding long-term contracts, **SiDG failed to consider the level of processing of timber assortments** that the buyer is able to provide.



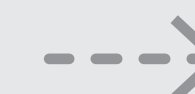
By the issue of the audit report, SiDG drew up certain internal rules and started upgrading its information system.



**Unequal treatment of potential buyers with long-term contracts** due to the rules adopted by the Government regarding the sale of timber assortments.



SiDG **failed to propose amendments** to the rules, thereby lifting the condition that the buyer may purchase timber assortments only from forest management areas within the distance of up to 40 km from its processing plant.



In April 2022, the Government adopted new rules regulating the sale of timber assortments, thereby lifting the concerned condition.

## ESTABLISHING AND ORGANISING CENTRES FOR WOOD COLLECTING AND PROCESSING

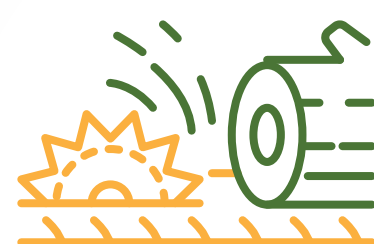
**Strategic objective of SiDG was to establish at least 4 going centres for wood collecting and processing by 2021**



**SiDG did not establish any new centres** and did not carry out sufficient activities related to their establishment

**did not establish a working group and draw up a plan of activities**

**did not establish a subsidiary**, buy the land, prepare investment documentation, publish public calls for strategic partners



the only going centre was the existing **company Snežnik** – subsidiary of SiDG



**In 2021, SiDG published two public calls in order to find strategic partners (one call still not concluded).**



**STRATEGIC PLAN 2017–2026**  
adopted by the Government in 2017

**SiDG should supplement the strategic plan regarding development and manner of operation of the centres.**



**SiDG formulated several proposals amending the strategic plan, however:**



**the Government was not notified of the risks** regarding the lack of the sufficient volume of timber assortments



**investment feasibility studies** pertaining to the planned projects were acquired only in January 2020



**lack of the appropriate bases for planning the activities, namely:** comprehensive market analyses, analyses of available quantities of raw material, feasibility studies, analyses of demand of envisaged products were not commissioned or performed, bases for determining locations and specific activities of the centres were not prepared, and the interest of potential strategic partners and alternative scenarios were not examined.

The Ministry of Economic Development and Technology assessed them as **inappropriate basis** for decision-making



**In 2021, the Government adopted new Strategic plan 2020–2029, which includes reformulated objectives pertaining to organising the centres.**



# OPINION OF THE COURT OF AUDIT



SiDG was **partially efficient** in managing State-owned forests and in establishing centres for wood collecting and processing.

THE COURT OF AUDIT PROPOSED TO SiDG 17 RECOMMENDATIONS TO IMPROVE ITS OPERATIONS, AMONG OTHERS SiDG SHOULD:



upgrade information system



supplement respectively adopt internal rules



perform comprehensive market analysis, analysis of available quantities of timber assortments and examine the possibilities for determining locations of the centres for wood collecting and processing as soon as possible



define rules and procedures of purchasing the forestry machines



study possible ways of monitoring the treatment and processing of timber assortments, and define the manner of reporting on the wood processing applicable to buyers



on the basis of pre-prepared plans, perform controls in the State-owned forests where felling is not carried out



By the issue of the audit report, SiDG implemented several measures for more efficient operation, therefore the Court of Audit did not demand the submission of a response report.