

ANNUAL REPORT 2020 SUPREME AUDIT OFFICE OF THE SLOVAK REPUBLIC



YEAR

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**2020 ANNUAL REPORT
SUPREME AUDIT OFFICE
OF THE SLOVAK REPUBLIC**

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Abbreviations

EC	European Commission
EU	European Union
EUROSAI	European Organisation of the Supreme Audit Institutions
GDP	Gross Domestic Product
INTOSAI	International Organisation of the Supreme Audit Institutions
IS	Information systems
MTD SR	Ministry of Transport and Development of the Slovak Republic
MF SR	Ministry of Finance of the Slovak Republic
ME SR	Ministry of Economy of the Slovak Republic
MIRDI SR	Ministry of Investments, Regional Development and Informatisation of the Slovak Republic
MC SR	Ministry of Culture of the Slovak Republic
MARD SR	Ministry of Agriculture and Rural Development of the Slovak Republic
MLSAF SR	Ministry of Labour, Social Affairs and Family of the Slovak Republic
MESRS SR	Ministry of Education, Science, Research and Sports of the Slovak Republic
MI SR	Ministry of Interior of the Slovak Republic
MH SR	Ministry of Health of the Slovak Republic
MFEA SR	Ministry of Foreign and European Affairs of the Slovak Republic
ME_n SR	Ministry of Environment of the Slovak Republic
NFC	Non-repayable Financial Contribution
SAO SR, Office	Supreme Audit Office of the Slovak Republic
SR	Slovak Republic
SB	State Budget
HTU	Higher Territorial Unit (self-government region)

FOREWORD BY THE SAO SR PRESIDENT

The audit activity of the SAO SR in the pandemic year 2020 was very demanding for all audit actors. I would like to take this opportunity to thank all the employees and management of the audited entities for their helpfulness and patience during the audits. Thanks are also due to the Office auditors who, in limited conditions, were able to fulfil the plan of audit activities of the SAO SR and also perform other activities based on the requirements of our partners.

Despite a number of important findings, we have referred to law enforcement or administrative authorities, most of the audit conclusions have highlighted much room for improvement. Usually, not much is needed - rigorous internal control to detect systemic risks affecting the economy, efficiency and effectiveness of resources spent in each public administration entity. By creating a more effective internal control system in State administration and self-government and by consistently using its elements in management processes, it is possible to achieve much more benefits for the citizens of this country than has been possible so far.

A frequent reason for the non-transparent, uneconomical, inefficient or ineffective use of public resources and other serious audit findings are several laws that are ambiguously or insufficiently clearly on the side of the public interest. For example, the audit showed how the legislation does not protect the country's mineral resources as required by the Constitution of the Slovak Republic, or how direct

payments in agriculture can be legally abused. Many other examples of the necessary amendment of the legislation are documented in the submitted report about the audit activities of the SAO SR for the past year.

The year 2020 was of special significance for the SAO SR activities. This is the first year when we are obliged to submit reports about audit activities to the relevant committees of the National Council of the Slovak Republic. I believe that the discussion possibility about the audit conclusions with the Members and responsible representatives from the audited entities in the committees of the Parliament and, subsequently adopting recommendations for solving problems, is an important signal how to use the audit for the management of public administration improvement. In order to fulfil the SAO SR mission, new possibilities have been created for a more systematic application of audit findings in practice we want to make full use of.



Karol Mitrik
President of SAI Slovakia

1 SAO SR AND ITS CONTRIBUTIONS

The SAO SR position in the system of State bodies and its role as a control body is defined by the Constitution of the Slovak Republic. In its audit activities, it is independent, bound only by Law, which implies its role as an irreplaceable element of parliamentary democracy.

The SAO SR more detailed position and competence is defined by **Act 39/1993 Coll. - The Supreme Audit Office of the Slovak Republic**. Pursuant to the Act, the Office is entrusted with the audit of local and European public resources used by public administration entities in terms of compliance with generally binding legal regulations and their economic, efficient and effective use. The Office represents the Slovak Republic in international organisations and cooperates with the Supreme Audit Institutions in accordance with international agreements the Slovak Republic is bound to. As the Slovak Republic is a part of international audit institutions, the Law allows the SAO SR to apply international standards in its audit activities for the purposes of quality and professional competence.¹ Based on that, the execution of three fundamental types of audits is performed – the compliance, financial and performance audit.

The legal bodies of the SAO SR are the President and Vice-Presidents elected for a seven-year term. Two Vice-

Presidents concluded their term last year, and at the time of writing this report, there is one Vice-President elected by Parliament in September 2020.

The legal obligation of the Office is to submit to the National Council of the Slovak Republic its positions on the State budget draft and the State final account, as well as at least once a year a report about audit activities. The amendment to the SAO SR Act in 2020 set a new obligation for the Office to submit reports about the results of individual audits to the relevant committee of the National Council of the Slovak Republic. As the SAO SR audit is an important part of State management, we consider **the direct information to the National Council of the Slovak Republic committees** about the main problems in economic, efficient and effective spending the public resources to achieve the set goals and the possibilities of their solution as extraordinarily important and useful for the society.

The SAO SR President usually, in quarterly intervals, informs the three highest constitutional officials – the President of the Slovak Republic, the Chairman of the National Council of the Slovak Republic and the Prime Minister of the Slovak Republic – about significant findings concerning the management of public administration

entities, fulfilment of public policy objectives, shortcomings in existing legislation.

The Office audit activity is planned activity implemented in two levels. **Strategic planning** focuses audit activities on substantial and significant problems and risks of spending public resources in crucial areas. This level of planning also takes place with the participation of experts who help define audit strategic areas based on their own knowledge and practice. **The annual audit plan** is approved by the SAO SR President based on a proposal from the College, as its advisory body, and it contains a list of audits focused on specific problems in spending public resources associated with achieving public policy objectives. The publication of the annual plan and information about its implementation in the form of reports about the results of individual audits on the Office's website is an important element of openness and transparency to the public.

The SAO SR considers as its main mission to assist the Government of the Slovak Republic and other interested parties in fulfilling their tasks in society in the best possible way and contribute in building a well-run society by objective and comprehensible outputs from audit activities focused on efficient, economical and effective use of public resources².

In order to fulfil this mission, **the Office audit activities must focus on significant societal problems** that State and local authorities address through individual public policies. Fulfilment of these policies objectives at the national and regional level, as well as the fulfilment of international obligations to which the Slovak Republic has committed, is the content of individual public administration entities activities to be secured by resources.

The dimensions of assessing the use of public resources to achieve the objectives of individual policies are much broader than they seem at first sight. **Economical, efficient and effective use of resources does not only mean meeting or not fulfilling budgets or complying with the Law.** The use of resources pursued a certain goal, a certain commitment, and the mission of the SAO SR is to determine whether these resources actually led to the set intentions and draw attention to the barriers and limits that cause their non-fulfilment. Only clear audit conclusions will provide an answer to public policy makers as to whether public finances are being spent correctly and in line with expectations. **In this way, the SAO SR strives to be a reliable and trustworthy partner, with ambition not only to state the situation, but that objective, true and verifiable audit findings also lead to the correction of the situation, and thus contribute to better management of public finances at all levels.**

The audit also has a **preventive function**, so the audit conclusions can help other entities to avoid repeating mistakes and deficiencies. However, the audit results can

also serve as **examples of good practice**, the generalisation of which strengthens the principles of public administration accountability to citizens. By detecting systemic shortcomings, risks resulting from ambiguity, insufficient degree of transparency, etc., the SAO SR contributes to **the improvement in legislative environment**. Although the audit main aim is not repression, **the audit results also serve law enforcement authorities**. The notification obligation for breaches of budgetary rules, the Financial Audit Act, the Public Procurement Act and other important laws must also be considered a benefit of the Office activities. Therefore, one of the important benefits of the SAO SR activities is, in particular, the action of the relevant public administration bodies to eliminate the identified shortcomings and to take measures that can contribute to their activities' improvement.

Fulfilling the SAO SR mission is not possible **without investing in human resources**, increasing their professional knowledge and skills. In fulfilling this Office role, the National Project for Building and Development of Professional Capacities (co-financed from EU funds) significantly helped, thanks to which more than 200 employees from the Office underwent various forms of education. Domestic and foreign experts help to fulfil its content. In particular, experts from the Swedish Audit Office showed to the SAO SR management and individual auditors the new possibilities and approaches in performance audit and its use in practice.

Last year, the Office managed a budget of EUR 13.6 mil, while the average number of employees was 298. **Organisationally, the SAO SR audit activities are performed by the audit section and its three departments.** Within one of them, there are Office regional branches, which focus primarily on the issue of spending resources associated with the exercise of original and delegated competencies of self-governing bodies and their organisations. An important Office organisational unit is the Strategies and Analyses Department, which, in addition to its own analytical activities, supports the planning of audit activities and its performance; the results of the analytical activities and the activities supporting the audit activities is presented in a separate part of this report.

It is important for the Office top management **to continuously determine the quality of audit processes**. The Office uses the institute of internal audit for this purpose, or performs its own quality controls. The most demanding process of quality assessment in the world community of the supreme audit institutions is to succeed in the international quality assessment in the form of the so-called PEER REVIEW. In 2020, the SAO SR started the process of quality assessment based on international standards for the above-mentioned quality assessment under the leadership of the US Supreme Audit Office. Other members in the international team are experts from the Finnish, Hungarian and Polish audit authorities. The conclusions from the international quality assessment will be known in the middle of 2021 and the SAO SR will inform the public.

¹ Act 39/1993 Coll., Article 2a, point 3.

² SAO SR Development Strategy 2020 to 2025.

2 AUDIT ACTIVITIES PLAN FOR 2020 IN NUMBERS

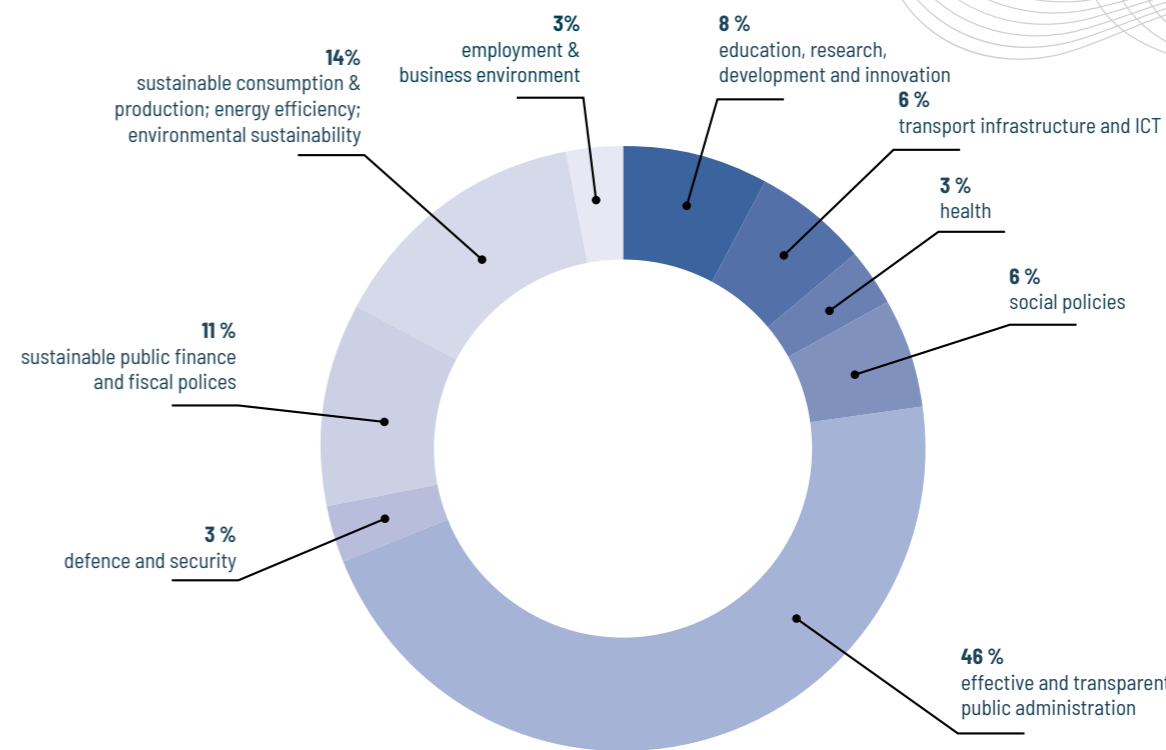
The SAO SR audit activities plan is the chief document in the given year. The audit activities are conducted in accordance with the Constitution of the Slovak Republic, the SAO SR Act and standards based on the fundamental principles for international standards of supreme audit institutions.

The SAO SR plan of audits for 2020 contained **35 audits** based on the strategic areas of focus of the Office audits. The plan envisaged 8 audits started in the second half of the year will not be completed until 2021 due to their complexity. Such a process of audit year-on-year overlap is natural and repeated every year. From the audit activities plan in 2019, five audits were completed last year, so **the content of this report are the most important results and conclusions of all 32 completed audits in 2020**. In accordance with the Law, a report or record is drawn up from each audit, containing findings and proposed recommendations intended to eliminate deficiencies in the audited institution or help it to do its activities better. Since 2015, the Office has been preparing audit final reports about results, which serve mainly to communicate audit results to the public, but gradually also to the Government of the Slovak Republic and the National Council of the Slovak Republic. Within the priority areas, the largest group of audits performed in 2020 consisted of audits aimed at efficient and transparent public administration (16). In the second group, audits

focused on sustainable consumption and production, energy efficiency and environmental sustainability (5), sustainable public finances and fiscal policy (4). Other audits focused on education, research, development and innovation (3), transport infrastructure and information and communication technologies (2) and social policy (2). **In 2020, 4 international audits** were conducted; they concerned medium-term budgetary frameworks, protection of the population against infectious diseases, plastic waste, the system of collection and administration of social security contributions and old-age pension savings. The SAO SR, as the body responsible for the international audits, covered audits focused on the issue of countries' preparedness for infectious diseases, comparing the effectiveness of social insurance systems and the issue of applying medium-term budgetary frameworks in fiscal policy. Other audits, performed in 2020, covered other priority areas of the SAO SR's audit activities for 2020 cross-sectionally, as shown in the graph 1 below.

In accordance with the standards ISSAI, the SAO SR performs several types of audits: compliance, financial and performance audits, resp. combining their basic elements.

All audit types, with their own approach, seek to answer the question whether the public funds entrusted have



Graph 1: Priority areas of SAO SR audits in 2020 (in percents)

been used in accordance with the principles of economy, efficiency and effectiveness. **The compliance audit** verifies compliance with these principles by assessing whether public resources have been used correctly in accordance with applicable legislation, regulations, contracts, etc., and whether all these standards have been applied in the use of resources. Application, resp. violation of generally applicable regulations and standards has a significant impact on finances, budget, and accounting, administration of State or local government property. Although it would seem obvious that public administration bodies and organisations proceed in accordance with the adopted legal norms and internal regulations, the SAO SR audits show that there is still a lot of room for improvement in which internal control and internal audit systems should play a decisive role. **Audits using the principles of compliance audit dominated in the previous year (app. 42%) and were used mainly in auditing the economy of individual subjects from the public administration.**

Audits with elements of financial audit focus largely on the veracity, completeness and verifiability of the accounting and financial statements and the information contained therein. Information from the accounting and reporting by individual public administration entities is becoming a part of important macroeconomic indicators and the financial audit by the SAO SR helps to increase the correctness of these indicators. However, using financial analysis methods, financial audit makes possible to assess many aspects of the economy, efficiency and effectiveness in spending resources.

In performance audit, the SAO SR does not look at economy only through the process of procuring works, goods and

services at the most economically advantageous price. **The economy** is also viewed from the point of view of possible waste, i.e., whether activity or goods were needed at all. The Office also notices possible **overpricing** - it assesses whether the activity or the necessary goods are **purchased in a reasonable quality**. From the **effectiveness** point of view, the Office focuses mainly on possible **losses** in the event that the funds spent do not lead to the desired results and whether the **optimal ratio** of inputs and outputs is set. **Efficiency** is the view of fulfilling the set goals and finding the causes of their non-fulfilment. This type of audit is used by the SAO SR **mainly to evaluate the use of public resources in the evaluation of public policies, setting processes that should lead to set goals, measuring the effectiveness or efficiency of the achieved goals, etc.** The application of performance audit principles is often combined with compliance and financial audit principles. In such a context, the application of performance audit and its combinations is the second most commonly used audit type.

In 2020, the auditors examined 216 entities, identifying 1 552 audit findings from various areas of their activities - from violations of the law to systemic deficiencies. The auditees took 958 measures. The SAO SR formulated 385 recommendations, the adoption of which could prevent the identified shortcomings.

The most serious findings of criminal suspicion were passed on to law enforcement authorities. In 2020, the SAO SR filed 4 criminal reports. There were 11 non-criminal notifications. The SAO SR forwarded 2 submissions to the NAKA (National Crime Agency), 2 submissions to the Public Procurement Office and 1 submission to the Antimonopoly Office of the Slovak Republic.

3 RESULTS OF AUDIT ACTIVITIES

3.1 Fulfilment of the fiscal policies goals

The development of society places increased demands on public budgets, whether it is the budget of the public administration, the State budget, the ministry budget, a subordinate organisation or the municipality. The budget no longer fulfils only the basic clearing function, but also performs several other functions related to the management of expenditures and the achievement of public administration management goals. It should focus on monitoring the added value of budget implementation to the citizens. On the other hand, it is extremely important to ensure that the level of Government debt does not exceed the limits that threaten the long-term sustainability of public finances. **The fiscal and budgetary policies, as tools for the sustainability of public finances, are receiving a great deal of attention from individual national governments and the European Commission.**

The SAO SR has also been dealing with issues of meeting the objectives of fiscal and budgetary policy at various

levels for a long time. This is primarily due to the obligation to draw up an annual position on the State final account and the State budget. However, the issue of the application of budgetary policy instruments is also addressed due to the anticipated problems and risks on which audits in State administration and self-government bodies are focused, as well as in their subordinate organisations or State-owned enterprises and companies with State ownership.

The medium-term budgetary frameworks allow the Government to extend the horizon of fiscal policy objectives beyond the current financial year – in our case, a three-year horizon. At the same time, they represent a number of tools enabling fiscal management of public finances. **Medium-term management identifies such important goals as e. g. debt, balance or total expenditures (so-called big fiscal),** which are governed by different fiscal rules, or **objectives for individual policies (so-called small fiscal), where programme budgeting plays an important role.** And the international audit **KA 028/2020** was focused on the evaluation of the setting the medium-term budgetary frameworks with an emphasis on the effectiveness and transparency of medium-term budgetary

objectives for 2015-2019. The SAO SR involvement along another 6 national audit institutions was to evaluate how these frameworks are applied, with what results and subsequently to compare them with each other.

The audit at national level focused on medium-term budgetary frameworks with an emphasis on the effectiveness and transparency of medium-term budgetary objectives. The evaluation of objectives was divided into two groups. The first was the objectives of fiscal policy, corresponding to top-level governance and flipped by the so-called debt brake, balanced budget rule or expenditure rule into several key indicators, such as structural balance, consolidation efforts, gross debt or general Government deficit. The second was the objectives of public policies corresponding to the interconnection of expenditures and the achievement of set goals, which is implemented in the Slovak Republic through programme budgets.

Regarding the process of creating a multi-annual budget, the SAO SR evaluates the process of compiling the budget and the evaluation of its implementation for the process managed by the Ministry of Finance at the required level, a number of documents related to this issue are freely available to the citizen.

The SAO SR identified the largest reserves in the comprehensibility of the budget and the State final account for ordinary citizens. The State budget itself, the public administration budget, but also the final accounts are extensive technical documents in which essential information is lost. Therefore, the SAO SR recommended to process the form of the budget as “Budget for People”, which was successful with the current budget. We consider a shortcoming to be published two months after the budget was submitted to the Government and Parliament. One of the purposes of such a document is to encourage public debate on budgetary priorities, which is not possible with late processing.

The SAO SR recommended the MF SR publish the “Budget for People” together with the submission of the budget to the Government / Parliament. At the same time, it recommends that MF SR draw up and publish a similar “Deduction for People” summarizing briefly and what has been achieved in the last year, what funds have been approved in the budget and what they have actually been spent on. It should be processed within the same deadline as the State final account or the Summary Annual Report of SR.

However, the audit confirmed the anticipated risks of the implementation and functioning of medium-term budgetary frameworks in Slovakia, **especially in the area of the quality of programme budgeting, which does not reach the required level and is often only formal.** An example is the results of the approved budget for 2019 divided into 72 programmes. However, the measurable indicators assigned to the individual

programmes were only formal, did not state the results and provided minimal added value in decision-making. Although it is known where the expenditure is directed, it is not possible to assess the economy, efficiency and effectiveness of the use of this expenditure on the basis of the set measurable indicators. These are also confirmed by several audit findings of **KA 028/2020** at the MI SR, the Ministry of Industry and Trade SR, which stated that currently, set measurable indicators, and budgets at these ministries do not provide a comprehensive and effective tool for monitoring and evaluating Slovak Government programmes. The audit of the regional self-government budget also pointed out similar problems as stated by the SAO SR in its position on the State final account.

Problems with the formal and insufficient use of programme budgeting are not only at the level of administrators of budget chapters, but are at all levels of public administration organisations. Audit **KA 006/2020**, which dealt with the issue of management of the local government administration, showed not only the problem of insufficient connection of their investment activities with the strategies of development of self-governing territory, but also that the expenditures on investments contained in investment, respectively in planning programme documents were not reflected in their programme budgets in the form of objectives and their indicators.

The audit of the medium-term budgetary frameworks, as well as the results of other audits, show that the current implementation and use of programme budgeting is not reaching its potential. Currently, programme budgeting is used mainly for gathering information and for operational, year-on-year budget management. There is no medium-term management and direct linking of the budget through this instrument to achieve the objectives. Although the programme budgeting procedure is well implemented through two modules in the Budget Information System, the chapters do not make full use of it. MF SR is aware of the reserves in the use of programme budgeting and is taking steps aimed at strengthening the results-oriented budgeting.

The SAO SR recommends revising the programme budgeting system so as to assist in the medium-term management of public finances with a link to the achievement of public policy objectives. This can be achieved, for example, by linking the revision of programme budget expenditure or by ensuring uniform (high) quality of programme budgets to ensure uniform quality management of programme budgeting, including accountability and billability for results.

The insufficient level of budgetary planning and management is evidenced by the ever-increasing number of budgetary measures, which have doubled in the last 10 years; in particular, from 1,584 in 2011, their number increased to 3,022 in 2020, indicating a low level of budget planning and management.

Table 1: number of budgetary measures in months in 2011 to 2020

month/year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	average	total
January	12	42	45	74	80	63	37	113	113	160	73,9	739
February	120	111	151	130	205	246	98	160	179	304	170,4	1704
March	81	157	201	191	217	228	135	162	272	233	187,7	1877
April	98	85	141	177	201	302	77	128	221	146	157,6	1576
May	127	107	118	190	204	305	122	162	313	219	186,7	1867
June	131	86	124	222	308	102	182	265	224	191	183,5	1835
July	97	83	190	199	296	93	112	212	225	220	172,7	1727
August	136	116	123	144	233	85	81	179	200	285	158,2	1582
September	111	157	184	141	200	112	99	209	186	261	166,0	1660
October	116	156	255	205	245	92	144	242	235	377	206,7	2067
November	228	249	308	231	404	215	294	370	309	338	294,6	2946
December	327	323	463	543	849	361	406	552	545	676	504,5	5045
average	132,0	139,3	191,9	203,9	286,8	183,7	148,9	229,5	251,8	284,2	205,2	
total	1584	1672	2303	2447	3442	2204	1787	2754	3022	3410		24625

Source: budget.sk (as of 20. 1. 2021), processing by SAO SR

The number of budgetary measures is growing year on year. The increase in the number of budgetary measures during the year is due to the gradual need for the chapters to adjust the actual implementation compared to the planned one, with a maximum at the end of the year when they can commit appropriations for the following year. A large part of the budgetary measures also falls on the absorption of EU resources, which also caused an absolute maximum in December 2015, when the programming period ended. **The increase in budgetary measures in recent years suggests that this legitimate budgetary policy instrument is often used beyond the objective need for redeployment.**

The highest number of budgetary measures in the period under review was reached in 2020. This rapid increase in budgetary measures was mainly due to the extraordinary situation related to the onset of the pandemic the budget was not prepared for. Chapters not directly affected by the situation shifted their finances to ministries that had to actively address the fight against the coronavirus.

The analysis of budgetary measures performed by the SAO SR analysts showed that in total, within the framework of "covid" budgetary measures, in 2020 almost EUR 2.9 bn was transferred between chapters. While at the beginning of the pandemic most expenditures went to the State Material Reserves SR for urgent provision of emergency supplies (primarily medical aids and disinfectants), but also to the ministries that fought the virus in the first line (MH SR, MI SR), the largest amounts began to be transferred to the departments ensuring the economic and economic stability of the country. It was hit

hard by established lockdowns, so it was necessary to find ways to minimize the negative effects on the economy and employment. Most funds went to the MLSAF SR (EUR 1.3bn bn) and ME SR (EUR 378 mil). The measure with the highest amount within Covid expenditures was taken by the MLSAF SR - EUR 603 mil. These were EU funds, including co-financing (received from MTD SR, MARD SR, ME SR, MESRS SR, and MF SR), intended to provide support employment during the extraordinary circumstance.

However, not all "covid" budgetary measures had to be implemented, but once again, the institute of budgetary measures turned out to be used unnecessarily. An example was the MI SR, which through 3 measures (in the period from March to May) received more than EUR 44.5 mil from the General Treasury Chapter and subsequently sent to it EUR 250 mil (in May) acquired by cutting spending in the Efficient and Reliable Government Programme. In August, EUR 250 mil was sent through another measure from the General Treasury Chapter back to MI SR (for the same programme from which they were previously taken).

At the beginning of 2020, traditionally, the largest amounts were transferred - EU funds. A total of 8 chapters (MARD SR, MTD SR, ME SR, MESRS SR, MLSAF SR, MF SR, MI SR, ME SR) transferred from the previous period EUR 2.7 bn. in total by varied budgetary measures. Although still a large amount, it should be noted that compared to 2018 (almost EUR 3.9bn transferred) and 2019 (EUR 3.2 bn transferred) there has been an improvement, and a gradual absorption of the accumulated funds can be seen from the EU. **MARD SR (EUR 1.036 bn) and MTD SR (EUR 0.586 bn) contributed the most to these transfers.**

The SAO SR repeatedly points out that the ever-increasing number of budgetary measures in recent years means that this legitimate tool of budgetary policy is often used beyond the objective need to transfer funds, and at the same time testifies to the insufficient level of planning and management of chapter budgets.

The medium-term budgetary frameworks audit **KA 028/2020** also focused on the area of achieving fiscal policy objectives, i.e., achieving the objectives of multiannual budgets. Fiscal rules at the national level are enshrined in legislation. **They include the so-called debt brake, the rule of a balanced budget and the limit of State budget expenditures.** The SAO SR also regularly addresses their issues in its positions. In the position to the State final account submitted by the Office to the National Council of the Slovak Republic in 2020, it pointed out the reasons why the expected historical moment in the form of a balanced budget in 2019 did not take place. The conditions for meeting this ambitious goal were favourable, although economic growth was slightly slower than in 2018. However, the reality turned out differently and the goal of balanced management was not achieved. The public administration deficit finally reached EUR 1,220 mil in 2019 which represented 1.3% of GDP. It thus increased by 9.6% year-on-year. **The financial results for 2019 showed that the Government did not take sufficient steps to improve management; on the contrary, it contributed to an increase in the public administration deficit. The SB contributed most significantly to the increase of the deficit, when the value of public administration expenditures reached not only the historically highest level - almost EUR 40.4 bn and compared to the approved budget, expenditures increased by 9.5%.**

Nevertheless, one fiscal target was achieved in 2019, when the public administration debt reached 48% of GDP and,

for the first time since 2012, fell outside the sanction zone under the Constitutional Act on Budgetary Responsibility. According to preliminary results, the consolidated debt in the ESA 2010 methodology amounted to EUR 45,202 million as of 31 December 2019. Although Slovakia is one of the countries with lower debt, in good economic times it did not take the chance to reduce it and create a reserve for worse times. The results of the SAO SR audits also demonstrated efforts to administratively reduce debt by excluding certain entities fulfilling the public interest from the scope of public finances³.

The audit of the medium-term budgetary frameworks for 2015-2019 showed that the set fiscal targets were not met and these were postponed to the end of the three-year budget horizon every year. The reserves are also weak in the medium term and in high flexibility of budgetary frameworks. The expenditure ceilings are not in place, expenditure ceilings are approved each year for the following year and the other two are indicative.

The year 2020, marked by the onset of the pandemic and its effects on security and the economy, also marked the budgetary frameworks that should have been prepared for similar circumstance. Due to exceptional circumstance, there are **escape clauses** within the fiscal framework that allow existing fiscal rules not to be applied in the short term. In March 2020, the EU agreed to release the so-called general escape clause with clearly defined rules. In the Slovak Republic, exceptional circumstances in connection with the impacts of COVID-19 were announced on 24 June 2020 and subsequently an amendment to the Slovak Republic Budget Act was approved in August. The result of the escape clause in the form of an adjustment of the State budget is shown in the following table.

Table 2: The result of the escape clause reflected in SB adjustments

SB fulfilment*					
indicator	Status quo as of 31. 12. 2019	Approved budget 2020		Status quo as of 31. 12. 2020	%
		original	after adjustment		
a	1	2	3	4	5=4/3
SB revenues	15 825 535	15 792 696	14 366 447	15 750 635	109,6 %
SB expenditures	18 027 015	18 560 878	26 319 081	23 509 055	89,3 %
SB deficit	-2 201 480	-2 768 182	-11 952 634	-7 758 420	64,9 %

source: MF SR
*2020 data are preliminary

In this context, the SAO SR warns that the implementation of escape clauses should not lead to an increase in expenditures unrelated to the given exceptional event, nor to a decrease in the credibility of existing fiscal rules and a weakening of their compliance. In its audit

activities, the Office will therefore give priority to compliance with these rules, compliance with cost-effective and efficient use of resources to address the consequences of the pandemic.

³For example, the audit KA 001/2020 dealt with the issue of emergency oil stocks. In this context, the audit pointed to the purposeful transformation of the State model into an agency model. This step was intended to help consolidate public finances and keep the general deficit below 3% of GDP in 2013.

Every crisis or pandemic has its end. The SAO SR points out that, both in the case of European and national rules, it is not clear how the country should return to the application of the rules in force at “normal” times. This is particularly important in a situation where, after exceptional circumstances have ended, the level of debt will be within the upper limits of the sanction zones.

We consider necessary to adapt the current national fiscal framework so that the Government can respond promptly to significant adverse effects in situations such as the ongoing pandemic, while not moving away from trajectories to sustainable public finances after exceptional circumstances have ended.

3.2 Accuracy and reliability of the State administration reporting is not at required level and substantial reserves still exist

The quality of information about various aspects of the Government entities assets that are outputs from accounting and reporting is very important for various reasons. **Much of this information affects the accuracy and reliability of consolidated summary statements for the entire Government, is used to create various strategies, policies, or is used to project claims for financial resources from the general public administration budget.** Therefore, the correct implementation of the accounting methods and principles applicable to the public administration sector is a crucial condition for the accuracy and reliability of such data.

The system of accounting and reporting of the State and the entire public administration sector has undergone a significant reform since 2008, when the principles of international accounting standards for the public sector - IPSAS - were implemented into Slovak legislation. Thus, the comparability of the outputs of public sector accounting in the Slovak Republic within the countries of the European Union was ensured by legislation. **Although a relatively long period has passed since their implementation, many inconsistencies still dominate between the reality and the reported data, as pointed out by several audits by the SAO SR.**

In 2020, the SAO SR also focused on the quality of reporting selected data in individual financial statements at three ministries - MFEA SR, MLSAF SR and MC SR in the audit **KA 022/2020**. The Office verified whether in 2017 - 2019 the ministries reported and published data about selected items of assets and liabilities in the individual financial statements faithfully, truthfully and completely, and whether they handled tangible fixed assets and receivables of the State in accordance with generally binding legal regulations. At the

same time, their internal control system was assessed, which should be an effective tool for preventing irregularities.

The audit pointed to a wide range of deficiencies and as the most serious we can name the following:

- the use of different principles in the depreciation of tangible fixed assets, the application of different depreciation rates, which do not take into account the real life of the asset and have an impact on the accuracy of its presentation in the individual financial statements;
- different approach to depreciation of technical revaluation of tangible fixed assets;
- failure to repair depreciation of buildings and real estate in accordance with the methodological guidelines of the Ministry of Finance of the Slovak Republic;
- failure to assess the reality of valuation of tangible fixed assets, receivables and the need to create provisions for inventory;
- unequal, inconsistent rules for assessing the uncollectibility of receivables and the creation of provisions, and
- ambiguous rules for creating and dissolving reserves, non-fulfilment of obligations in the administration and recovery of overdue receivables.

The findings are evidence of the application of non-uniform accounting methods and different interpretations of legislation, resp. their violations result in false information in the financial statements. The SAO SR submitted to the audited entities a total of 40 recommendations for shortcomings solution, which were accepted by the audited ministries. As the risk of the existence of similar shortcomings is also high in other public administration entities, a systemic approach to its elimination is needed. The solution is to create centralised tools for the effective management and reporting of Government assets, which would help eliminate inconsistencies in the application of accounting rules and thus allow to improve the quality of outputs of consolidated and summary statements for the Government and the entire public administration.

The SAO SR recommended to MF SR to build a Central Economic System for State administration organisations, which can increase the quality and timeliness of data from accounting and reporting from State accounting units and thus achieve more efficient management of public finances. In 2017, MF SR already presented the ambition to use European resources to build such system, but the project has not yet been implemented. However, current findings confirm the rationale and need for such a system.

The audit revealed, in addition to the above-mentioned risk of unreliable data, several shortcomings in the registration and protection of State property. It is worth mentioning that land and buildings of the Slovak Republic, located abroad and managed by the MFEA SR in the amount of approx. EUR 330 mil are not registered in the Central Register of Assets (CRA).

Although the Ministry argues with an exception to the law and technical problems of registration in the Real Estate Cadaster, the SAO SR considers it unacceptable that these assets are not recorded in a suitable manner in the CRA. It therefore recommended MF SR, which manages the CEM, to re-evaluate or adapt the criteria for registering assets in the CRA to the current findings on the registration of Slovak assets abroad.

Another of the audit findings was the **high rate of wear and tear of tangible fixed assets, especially constructions**, for example, in the culture sector - up to 98%. However, according to the SAO SR, the low residual value of buildings does not correspond to reality and is the result of incorrect accounting, non-reassessment of economic life, or failure to take into account the period of use. The audited ministries did not respect the guidelines of MF SR from 2017 and did not correct the depreciation of tangible fixed assets. Neither **assessed the reality of the valuation of the property** and the depreciation period over its useful life. **No ministry created provisions for long-term assets**, even though, for example, MC SR registered unused project documentation for the Budmerice manor house from 2013 for almost EUR 200,000. **Inconsistency in asset reporting is one of the risks of misstatement in aggregate data in State and public administration reports.**

A special problem of property protection is the **frequent absence of its insurance**. In the audited period, MLSAF SR did not have any other property, including buildings, insured bar transport vehicles. However, this problem is not unique and is not just an expression of non-fulfilment of obligations arising from the Administration of State Property Act. Especially for administrators of large assets, this is connected with insufficient allocation of budget funds for the given purposes, to which the SAO SR also pointed.

3.3 Fiscal policies application in self-government

The management of self-government is an essential part of the management of the State, and therefore it is important that the basic principles of fiscal policy are observed in the management of cities and municipalities. The SAO SR regularly deals with the application of fiscal policy in self-government. In 2020, SAO SR performed a financial audit (KA 015/2020) in selected 28 municipalities, which dealt with the issue of local government indebtedness. At the same time, the accuracy and reliability of the reporting of repayable sources of local government's fundings was verified as well as ability to repay liabilities. The application of fiscal policies in the self-governments as whole was subject to an audit performed at MF SR.

Pursuant to the Constitutional Act on Budgetary Responsibility, in addition to the general rules, special rules have been laid down for territorial self-government:

- the State does not financially secure the solvency and is not responsible for the solvency of municipalities;
- if the Law stipulates new tasks for the municipality when regulating its competence, the State will, at the same time, provide the municipality with adequate financial resources for their fulfilment, and
- if the total amount of the municipality's debt reaches 60% or more of the actual current income of the previous budget year, the municipality is obliged to pay a fine imposed by MF SR, while the total amount of debt is determined by the Budgetary Rules of Territorial Self-Government Act.

Pursuant to the Constitutional Act on Budgetary Responsibility, the State is not liable for the obligations of municipalities. Procedures have been established, within the framework of budgetary rules, for cases of inability to pay liabilities by local self-government entities. The municipality is obliged to introduce a recovery regime if the total amount of its liabilities after the due date exceeded 15% of the actual current income of the municipality of the previous financial year and if it has not paid any recognized liability within 60 days from its due date. At the same time, it is obliged to announce the fulfilment of the conditions for the introduction of a recovery regime to MF SR. within three days of finding out the above facts. The Ministry is entitled to introduce compulsory administration if the conditions for the introduction of a recovery regime have arisen and the municipality has not introduced it, or if no remediation has taken place even after the end of the management in the recovery regime. **In 2017 - 2019, four municipalities were in the recovery regime and 4 municipalities also ended up in the compulsory administration in 2019. The audit of the SAO SR at the MF SR confirmed that the Ministry fulfils the obligations associated with the assessment of the conditions of compulsory administration towards municipalities.**

The SAO SR repeatedly warns the National Council of the Slovak Republic in its positions on the State budget that **municipalities point to problematic compliance with the rule for securing funds from the State in the case of new tasks for self-government, e. g. in the field of education or informatisation of public administration.** According to their experience, this is mainly due to frequent amendments to laws, when duties and tasks are added without adequate systemic financial compensation. As part of the financial control (**KA 015/2020**), 18 of the 28 audited municipalities stated that they did not have sufficient funds not only to perform tasks related to the delegated performance of state administration to municipalities, but also to perform original competencies. Several municipalities did not provide their employees with a statutory allowance for recreation or winter maintenance of sidewalks. In the area of delegated performance of state administration, they did not have enough funds, especially to ensure the needs of schools, but also for the activities of building authorities.

⁴Pursuant to the Budgetary Rules of Territorial Self-Government Act, repayable sources of financing represent funds of the municipal budget from received loans, borrowings, repayable financial assistance, bills of exchange and municipal bonds issued by the municipality. From 1 January 2019, for the purposes of the provisions of the said Act, supplier loans accepted by the municipality are also considered repayable sources of financing.

The MF SR argues for these reservations from municipalities that in the years 2017 - 2019 the Ministry did not record any adjustments to the powers of local governments, for which it would be necessary to provide adequate funding from the State budget. The Ministry states that it last recorded the consequences related to the transferred competence from the State to self-government in 2015 with the adoption of an amendment to the Act on the Conditions for the Exercise of the Right to Vote. In connection with the financing of municipalities, it draws attention to the significant increase in personal income tax revenue in 2019, when the transfer to municipalities amounted to more than EUR 2.2 bn, an increase by 32.8% compared to 2016.

However, the long-term audit activity of the SAO SR in the area of self-government brings evidence that the financial impact of the new legislative on the self-government budget is often insufficiently assessed. Subsequently, after the legislation is put into practice, the local government must bear the financial demands from its original budgets without financial compensation from the State. Often, only increased labour costs are quantified, but not other incurred operating or capital expenditures. The SAO SR warns that the risk of biased assessment of financial claims increases especially when adopting laws in abbreviated legislative proceedings, or when indirectly amending individual laws. It is a general problem and, in addition to municipalities, it also concerns State budget and contributory organisations.

Regarding the third rule mentioned above, MF SR annually identified on average 5% of municipalities which, according to the data published by them, did not comply with the legal provision that the amount of debt may not exceed 60% of actual current income of the previous year.

In the administrative proceedings, it imposed a fine on **14 municipalities for EUR 43,669.40 in accordance with the Budgetary Rules for Territorial Self-Government Act in 2017 - 2019.** In most other cases, the data reported by these municipalities in the separate financial statements and financial statements were incorrect.

A specificity related to the financial statements of the local government is that the Accounting Act and other legal regulations do not stipulate the obligation or the method of approving the individual or consolidated financial statements of the self-government accounting units. In this connection, even in the case of additionally identified significant errors by the local government, it is not possible to re-open the accounting books and correct erroneous data. Similarly, the approval of financial statements is left to the discretion of local governments.

The SAO SR drew attention to this problem of the MF SR and recommended that it create legislative conditions for the possibility of correcting erroneous data in the accounting books and thus ensure a higher level of reliability of data entering the State final account.

In 2017, according to data from MF SR, the gross non-consolidated debt of Slovak municipalities was EUR 1.38 bn, in 2018 it was EUR 1.47 bn and in 2019 it rose to EUR 1.49 bn While the non-consolidated gross debt of the central administration in 2017 - 2019 increased by 4%, in municipalities its dynamics was faster and increased by 8%. The amount of gross debt of territorial self-government in 2019 was EUR 1.95 bn, of which municipalities achieved a debt of more than EUR 1.49 bn. The structure of gross debt of municipalities is shown in the following table.

Table 3: Municipalities gross debt overview (non-consolidated) according to debt instruments (thousand EUR)

Debt instrument	Rok 2017	Rok 2018	Rok 2019	ratio 2019/2017
Loans from the State Fund for Housing Development (SFHD)	715 340	728 099	743 561	1,04
Bank loans	575 211	628 608	655 959	1,14
Financial help	34 221	46 549	25 209	0,74
Guarantees	15 323	20 940	22 747	1,49
Long - term trade payables and advances received	16 566	17 902	17 490	1,06
Investment supplier loans and supplier loans	9 542	17 610	12 106	1,27
Financial leasing	5 701	5 343	5 236	0,92
Other non-banking loans	3 351	3 901	4 562	1,21
Securities	3 014	2 839	3 090	1,16
Loans from the Environmental Fund	1 276	1 111	948	0,74
Total unconsolidated debt of the municipalities	1 379 545	1 472 902	1 490 908	1,02
Consolidated contributions by municipalities into the public administration debt	629 616	697 143	721 190	1,15

Source: MF SR

The table shows that the most used debt instrument was loans from the SFHD for the construction of municipal rental housing. They accounted for an average of 50% of gross debt. Second in order - bank loans accounted for 42 to 44% of gross debt. **After assessing the debt for the purposes of regulating the receipt of repayable sources of financing according to budgetary rules, more than half of municipalities in Slovakia are in debt.**

In connection with the growth of repayable sources of financing in the economy of municipalities, the SAO SR auditors focused in the audited sample of municipalities on the issues of fulfilling the obligations to achieve repayable sources and on the reliability and correctness of reporting repayable sources of financing. **The audit showed that most municipalities met the set legislative conditions for receiving repayable sources of funding.** However, serious problems have emerged in the accuracy and reliability of the information in the financial statements and other financial statements about these sources.

In connection with repayable sources of financing, incorrect and incomplete data were found in the individual financial statements of 25 from the 28 audited entities. In the balance sheet on the liabilities side, incorrect data were reported every year audited. In 2019, this amount reached almost EUR 1 mil. The shortcomings were mainly due to non-compliance with the applicable accounting procedures. The verification revealed differences between the accounting balance and account statements from loans from the SFHD. As many as 75% of the audited entities did not fulfil their obligations related to the inventory of liabilities. Performing an inventory of assets and liabilities is one of the conditions for proving accounting and can significantly eliminate incorrect and incomplete information in accounting.

In addition to the separate financial statements, there was a high error rate in the financial statement on the balance of bank accounts and liabilities. For example, six audited entities did not report overdue liabilities of more than half a million euros in 2018. Other shortcomings were also identified, such as incorrect reporting of liabilities by maturity and others.

It follows from the above that neither the chief comptrollers nor the auditors, who did not point out deficiencies in this area in their opinions, consistently fulfill their duties. For example, the chief comptrollers present their position to the municipal council about the final account draft, which should also include information on the status and development of the debt. When auditing the financial statements, auditors should, in accordance with the legislation, also verify the facts concerning the indebtedness of municipalities, the recovery regime and others. **In the case of the audited entities, they did not report any deficiencies to the MF SR in any case, and the audits performed did not eliminate**

unreliable, incorrect and incomplete data about debt in the financial statements. As a result, the SAO SR auditors found a total of **451 breaches of generally binding legal regulations and breaches of financial discipline in the audited municipalities worth more than EUR 1 mil⁵.**

The audit showed

- **that the indebtedness of municipalities is increasing every year, while the increase in indebtedness above the statutory limit was found in two municipalities where the total debt exceeded more than 60% of actual current income of the previous year, another municipality exceeded 25% of debt service;**
- **that incorrect and unreliable reporting of recoverable sources of funding in the financial statements and selected financial statements continues;** the results obtained in the audited sample of municipalities indicate a high general risk of unreliability of data entering the State final account from the self-governments, and
- **that the ability to repay its obligations, especially in small municipalities, is problematic;** the six audited municipalities did not report existing overdue liabilities in the financial statements and financial statements, so the MF SR did not have reliable data to apply the legal measures.

3.4 Public administration entities in SAO SR audits

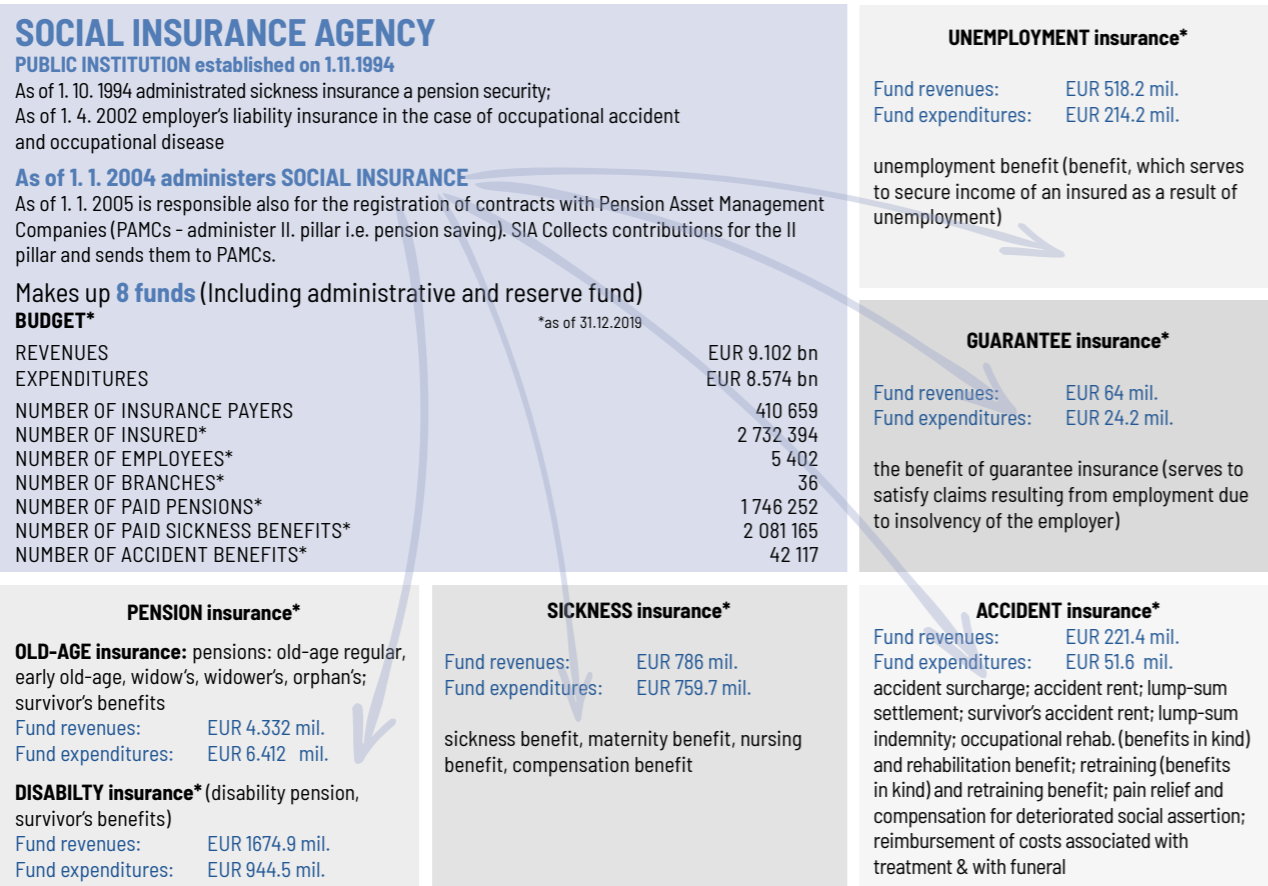
3.4.1 How State important economic subjects and institutions were managed

- **Social Insurance Agency (Sociálna poisťovňa)**

Public administration entities are regularly audited by the SAO SR. It is clear from the results that many problems are common in the subjects of State administration and self-governments, others are caused by specific area of their operation. One of the subjects of public administration is the **public institution Social Insurance Agency** (further SIA) which is legally entrusted with the performance of health and pension insurance. Basic data on SP for 2019 are in picture 1. At the turn of 2019/2020, the SAO SR, in cooperation with the SAO Czech Republic, performed a coordinated audit (**KA 032/2019**), aimed at assessing the effectiveness of processes and actions associated with the collection of insurance premiums. The system of administration and collection of social insurance and old-age pension savings was assessed, focusing on the registration, prescription, collection and recovery of insurance premiums and their control. The evaluation of the effectiveness of the social insurance administration will be based on an international comparison of the results, which the two audit institutions will publish in 2021.

⁵ The SAO SR audit revealed that in 2014 to 2018, the municipality's share taxes were sent to the account of the business company on the basis of a written request from the Mayor. **This violated financial discipline according to the Budgetary Rules of Public Administration Act in the amount of EUR 812,384.10.** At the same time, **the above-mentioned actions by the Mayor exceeded the powers of the Mayor in accordance with the Municipal Establishment Act. This fact was not criticised by the auditor or the municipality chief comptroller.** In addition, the accounting documents were not prepared in accordance with the Accounting Act. In the audited period, the municipality was unable to prove the amount of liabilities in accounting documents. It has not kept accounts in a correct, complete, verifiable, comprehensible manner and in a manner that guarantees the permanence of the accounting records.

Picture 1: Basic data about the Social Insurance Agency as of 31. 12. 2019



SIA collects more than EUR 8 bn a year of social security contributions, which is more than the SB revenues from VAT. **Premiums income increased for 2017 - 2019 by more than 11%.** The largest source of insurance is income from employers that increased by 15.5% during this period. At the time of the audit, 1,660 employees (30% of all SIA employees) at 36 SIA branches were collecting the premiums. The report about the audit results attached to this report contains a number of data about the collection of premiums. The most important we consider the following.

The basic source of income of the SAI is insurance premiums for sickness, pension (old-age and disability), accident and guarantee insurance, unemployment insurance and the solidarity reserve fund. A comparison of the management of its funds in 2015 - 2018 confirmed that while the largest fund - old-age insurance ends annually in deficit, other funds are usually in surplus. The SIA then uses their surpluses, together with financial assistance from the State, to address the deficit in old-age insurance.

The total balance of pension insurance would have climbed cumulatively in 2004 to 2017 to EUR 25 bn without the help of the State. The covering the old-age insurance deficit from other funds indicates a high risk of this fund to public finances.

The SIA, together with other premiums, also collects **contributions to II. pillar** - old-age pension savings, and transfers the relevant part of the insured-saver's contribution to the pension management company, even if the employer does not pay the premium. The audit findings showed that the insurance company pays significant amounts to pension companies every year for unpaid employers' premiums.

In 2018, EUR 628 mil was transferred to pension management companies while almost EUR 13.5 mil. EUR was paid from the insurance guarantee fund for policyholders for whom mandatory contributions were not paid.

Pension management companies pay for the services provided to them by SIA. In the audited period, the amount of remuneration for the collection of contributions to old-age pension savings represented 0.25% of the transferred amount and in 2018 it reached the value of EUR 1.5 mil. However, the actual recalculated costs of the SIA associated with the collection and sending the contributions from old-age pension savings to individual pension management companies are approximately double compared to the remuneration for this service. This means that the provision of this service is loss-making for the SIA.

Until 2012, the amount of this remuneration was 0.5% and without an objective assessment, it was halved.

The SAO SR recommended that the MLSAF SR initiate a legislative change that would realise the statutory amount of remuneration for the service for collecting contributions to II. pillar and would correspond to the actual costs incurred by the SIA.

The stability of the legislative environment in which the SIA operates, as a social insurance provider cannot be clearly assessed positively either. The SAO SR points out in particular **the high number of legislative changes - the amendment to the Social Insurance Act took place in the period 2015-2019 on average every two months!!!** Legislative changes are negatively reflected in the SIA budget, on average it is more than EUR 3.5 mil per year. In 2/3 of the cases of the verified legislative change, the clauses of influences on the SIA budget were missing. The quantification of the impact was not documented even in cases such as the opening of the second pillar, where based on information from the past was possible to estimate the positive or negative impact of this legitimate decision⁶.

An inseparable part of the collection of insurance premiums is also **the recovery of receivables** arising from non-fulfilment of payment obligations. In 2015 - 2018, new receivables increased by an average of EUR 273 mil per year. Cumulatively, SIA recorded **premiums due of almost 780 mil EUR** (approx. 10% of the annual premiums).

The SAO SR positively evaluates the introduction of the so-called "soft" collection tools (notification of arrears by e-mail or SMS), thanks to which the collection of insurance premiums increased by EUR 183.2 mil in 2015-2018. The higher success in the collection of outstanding premiums was also contributed to by the introduction of the so-called **"correct performance"**, i.e., performing of execution on own account. While in 2015 it was EUR 40.7 mil, in 2016 it was EUR 37.2 mil through court executors and mandate administration, in 2018 the SAI internally recovered up to EUR 58.7 mil. For the time being, the collection is performed by ordering a receivable from a bank account, deductions from wages or deductions from benefits paid directly by the insurance company.

The SAO SR recommended to the SAI to examine the possibilities of extending the administrative performance to the methods of recovery used by the tax administrator in tax execution.

The largest debtors to the SAI are medical facilities that are under MH SR. In 2017, they accounted for almost a third of all insurance company receivables. Debts of medical facilities to SIA are increasing, despite several State interventions.

Based on the audit findings, the SAO SR came to the conclusion that the State's steps towards debt relief

for hospitals did not meet their objective and did not contribute to the financial stability of the system.

The SAO SR considers the fact that the **SIA did not respect the basic constitutional principle of equal treatment of all interested parties** in the recovery of receivables by not acting towards State hospitals that did not pay compulsory insurance premiums for their employees as for other debtors. While it used all legal means of recovery against other debtors, including executions and criminal reports, no effective steps were taken against public health facilities to recover unpaid premiums.

Based on the development of the collection of insurance contributions and the level of receivables, the auditors came to the conclusion that **the fiscal management** of social contributions by the competent authorities is not given such attention like VAT, despite the fact that the annual value of social security contributions is higher than the value of this tax. Although the MF SR and its Institute of Financial Policy prepare forecasts of social security contributions and analyse developments and trends, the success of their collection is not analysed in the same way as in the case of taxes. Thus, the causes of the significant gap between the potential and the actual choice of social security contributions are not sufficiently analysed at the macro level.

The SAO SR recommended the MLSAF SR, in cooperation with the MF SR, regularly perform an analysis of the social security contribution gap, which would enable effective measures to be taken to improve their collection.

The audit also revealed reserves in the use of information systems. On one hand, the SAO SR positively perceives the expansion of electronic services in relation to policyholders, but on the other hand, the existence of **48 different information systems, most of which are used for the management and payment of various benefits**, is a significant risk for the future. The auditors recalculated that out of the selected thousand euros, the insurance company gives less than a euro for the support and development of IT systems. The way to improve mutual electronic communication with the insurance company's client, business entity is to use the existing information systems of public administration and actively participate in the state-guaranteed central electronic official delivery.

The SAO SR pointed out the fact that the key information system for the administration and uniform collection of insurance premiums is more than ten years late. The phase that was supposed to link tax administration to the collection of insurance contributions (UNITAS 2) came to a standstill, without the existence of a realistic action plan. In 2021, the SAO SR will inspect the responsible institutions for an answer to the causes of this situation.

⁶ The SAO SR audit showed that, in terms of the impact on the public administration budget, even two of the most significant legislative changes did not have an estimate of the impact on the budget. The total positive impact of these two measures on the SIA budget **amounted to almost EUR 900 mil.** At the same time, in the case of the fourth opening of the second pillar, **it was possible to estimate the financial impacts** based on data from previous openings of the II. pillar. The submitter could state the influence in relative terms, e.g., in terms of calculation per 10 thousand policyholders / savers. Even when accepting changes in the area of receivables of SP from medical facilities, the submitter did not quantify the impact on the SIA budget in the explanatory memoranda, despite the fact **that the sum of receivables was known in advance.**

• **Slovenská pošta, a. s. (Slovak Post, jsc)**

Another specific subject of public administration, that activities became the audit subject by the SAO SR last year, was the **State joint-stock company Slovenská pošta**. With almost 13,000 employees, this joint-stock company is one of the largest employers, but at the same time it is a company where the average salary of its employees is well (-230 euros in 2019) below the national average. It operates 1,504 post offices, 39 partner posts and more than 100 automated parcel machines.

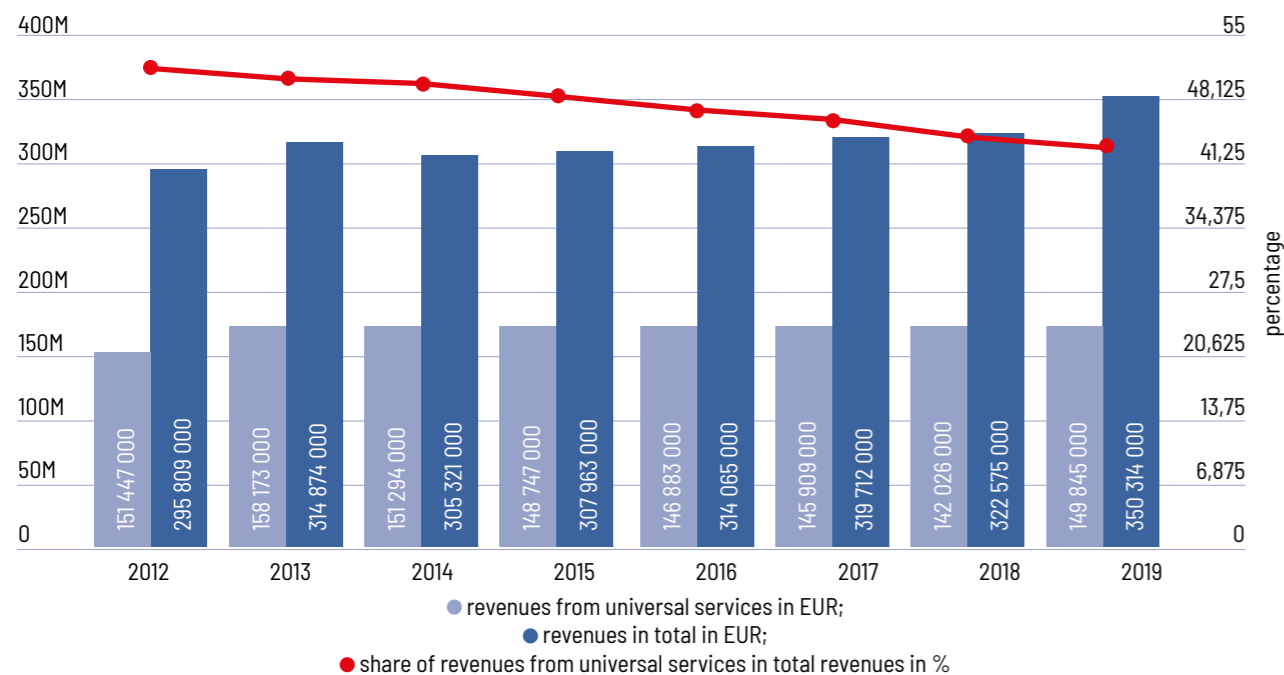
The aim of the audit (**KA 002/2020**) was **to verify the sustainability of the provision of the universal postal service by Slovenská pošta in liberalized market**.

Slovenská pošta as the sole holder of a license for the provision of universal postal service until 2022, must meet

demanding criteria for maintaining the availability of access and contact points of the public postal network, provide universal post service at regulated prices. The financing of this service is therefore provided not only by **Slovenská pošta** own resources, but also by funds from the compensation fund. In 2018, the contribution from the SB in sum of more than EUR 14 mil was not enough to cover the loss of EUR 5.2 mil.

The postal market has been fully liberalized since 2012, which significantly affects the provision of the universal postal service and its economy. **Interest in letter services for the massive boom in electronisation is declining from year to year**. Fixed costs in the form of a number of branches and employed people are firmly linked to the letter business. The share of universal service revenues in total revenues fell from 51% in 2012 to 43% in 2019. The provision of **universal postal service is difficult to sustain in the long run under current conditions**.

Graph 8: Development of the revenues share from universal service in the total revenues



Therefore, **Slovenská pošta** tries to increase its revenues through other activities. **The cooperation with the State is the key issue**, which includes the payment of benefits and pensions, the provision of e-Government services, and the delivery of official documents in paper form to addressees without activated electronic mailbox. However, the provision of services in the public interest has long been unprofitable, nor does it cover the costs incurred. **In 2019, the loss from these services amounted to almost EUR 5 mil.**

Slovenská pošta has been cooperating commercially with important companies from the business sector for several years as part of additional activities for their products or services it sells. **Revenues from these services do**

not fully compensate for the shortfall in the sale of traditional postal products, they are only of an ancillary nature. Despite the fact that revenues from contractual cooperation with the lottery company **Tipos** grew in the audited period, due to the not optimally set cost model (i.e., the system of reporting costs and revenues for individual products), the overall result of the contractual cooperation is a loss, which deepened from EUR 1.42 mil in 2017 to EUR 2.44 mil in 2019.

In the case of a contract with **Swan Mobile jsc.** for the sale of the joint product of the mobile operator 4KA, after the change of legislation in 2019, only the mandate remuneration in the amount of the margin is recorded in revenues.

In both cases, the SAO SR recommends re-evaluating the cost model so that it reflects the objective costs of mail associated with the provision of services to business partners.

In the case of cooperation between **Slovenská pošta** and **Poštová banka** (Post Bank), this is a long-term contract valid until 2026, on the basis of which **Slovenská pošta** provides Poštová banka with exclusivity for the agreed services. The cooperation was profitable during the period considered, but the profit gradually decreased. However, regardless of the economic result of Poštová banka, Slovenská pošta has growing costs associated with providing premises for the Bank covering them from its own resources. That which puts Slovenská pošta at a disadvantage until 2026 if management fails to adjust the terms of the contract.

The audit results showed that **MTD SR as a 100% shareholder, does not develop sufficient initiatives that would enable Slovenská pošta to fulfil its tasks as a universal postal service provider and, at the same time, provide a wage commensurable with the importance of the service to society**. The provision of services for other State institutions, or the State-established company TIPOS, should be based on mutually beneficial relations – Slovenská pošta should not bear the loss from these relations.

MDV SR, as a shareholder, should have a clear idea of the long-term development strategy of this important public administration entity. The strategies should give clear answers as to **how the Slovak Republic intends to provide the universal postal service to the extent required by European legislation, while respecting the needs and economic capabilities of the population**. Access to basic postal services must be guaranteed to the citizen by the State, which should provide the Slovenská pošta with adequate financial compensation for the services.

The results of the SAO SR audit were discussed on 11 March 2021 by the Committee for Economic Affairs of the National Council of the Slovak Republic and instructed the Minister of Transport and Construction of the Slovak Republic to ensure the elaboration of a Slovenská pošta long-term development strategy determining what, in addition to the universal postal service, will be its strategic business portfolio, including planned investments.

• **Slovenské elektrárne, jsc – contracts to the completion of the Mochovce Nuclear Power Plant**

Too often, the practice in audit activities shows that one of the serious problems affecting the economy, efficiency and effectiveness of the public resources spending and consistent fulfilment of the public interest is **the contractual relations of entities fulfilling such public interest**. This problem was also pointed out by the audit of selected contractual relations and their fulfilment in **Slovenské elektrárne, jsc. (KA 038/2019)**, which was

completed last year. It concerned **the audit of contracts related to the financing the Mochovce Power Plant (EM034)**. The completion of this power plant is extremely important for Slovakia, and the constant postponement of the completion date has a number of negative effects in the form of non-fulfilment of electricity generation targets, or almost a threefold budget increase as of today.

Slovenské elektrárne, jsc (further SE) in connection with the completion of EM034, concluded contracts in the period from 1 January 2009 to 31 August 2019 in the total sum of EUR 4.568 bn. The audit performed concerned a detailed inspection of five work contracts in the total amount of EUR 151.78 mil. The audit resulted in significant findings that indicate the risks of possible extensive economic damage. The SAO SR considers the most serious of them the following:

- **absence of justification of the quantitative / quantitative basis of the subject of the contract, price and quantity mismatch in the items listed in the annexes to the contracts;**
- **confirmed price differences in identical and similar items of project budgets;**
- **high price variance between internal and contractor estimates;**
- **performances not related to the original subject of the contract (amendments to contracts);**
- **enormous increase in prices for construction management due to the extension of completion dates;**
- **re-performances and payment for parts already delivered as a result of a change in technical requirements and / or parameters;**
- **waiver of all claims arising from the contract, including the guarantee, non-application of fines;**
- **unsubstantiated relevant justifications for the creation of additional supplies and installations;**
- **unjustified time constraints in concluding new amendments to the contract;**
- **unperformed inventory of material at the termination of the contract and subsequent contracting a contractor for the same subject of the contract;**
- **unjustifiably contractually agreed bonus for extraordinary mobilisation in case of early termination of the contract;**
- **non-compliance with the deadline for completion of performances and submission of the work, and**
- **exclusive use of the English language for key documents (like contracts).**

In this context, the SAO SR recalls that the conclusions of its audit in the SE in 2015 already pointed to several similar problems and risks that were highlighted by the audit in 2020. The conclusions of the 2015 audit - initiated in this case by the National Council of the Slovak Republic - competent authorities did not respond adequately and the parliament did not deal with the audit report results on the results. Therefore, the SAO SR considers it important that

the **SE Board of Directors addressed all findings of last year's audit and took a number of key measures in the form of a review of the various processes responsible for most of the above findings. The SAO SR audit thus fulfilled its mission, contributed to the improvement of management processes in SE.**

The SAO SR submitted the report conclusions to the Committee for Economic Affairs of the National Council of the Slovak Republic, which took note of it on 25 January 2021, together with the measures taken by the ME SR. In this context, the Committee also:

1. Requests the Minister of Economy to send a report to the Committee for Economic Affairs of the National Council about the fulfilment of deadlines and implementation of work on the completion of the Mochovce nuclear power plant third unit in regular monthly intervals (on the 10th day of the month) until its commissioning; and

2. Approved the working trip of the members of the Committee for Economic Affairs of the National Council of the Slovak Republic to the Mochovce nuclear power plant to get acquainted with the current state of completion of the third and fourth units.

- **Lesy SR (Forests Slovakia), State enterprise – forest fire detection system**

The SAO SR focuses on the management of State and municipal forestry enterprises through a cycle of audits. In the audit of management Lesy SR, a specific problem was identified pointing to a considerable inefficiency and non-transparency of the use of public resources. Therefore, SAO SR devoted a separate audit to this problem - **KA 035/2019**. The audit subject was the process of building an **Automated Stationary Detection System for Early Detection of Forest Fires (further ASDS)**.

The audit concerned two projects implemented in the State enterprise **Lesy SR** from the Rural Development Programme 2014-2020 and their goal was to ensure fast and accurate fire detection and localization through a camera system, thus minimising economic and environmental damage to forest ecosystems, as well as health protection for persons moving in these locations. The system was to provide information to the fire brigade about accesses, barriers, water areas around the fire and thus ensure rapid intervention if necessary. The intention was to build a comprehensive fire monitoring system in the High Tatras (3,315 km²), Low Tatras (2,100 km²) and Záhorie (2,178 km²) areas, i.e., in areas with a high risk of forest fires.

The main audit findings of the audit related to the following shortcomings in the procurement process, evaluation and implementation of the project, and in particular:

- **Determination of the estimated value of the contract – a contract with an estimated value of EUR 28.4 mil was set by the contracting authority only as an average of prices in the offers of the addressed companies, without own analysis, and**
- **Non-transparency and discrimination of the competition – both companies that entered the competition proved with the same references from the same subcontractor or negotiations with telecommunications operators on the same day. The prices offered for contracts did not differ much, in order to avoid doubts about the disproportionately high price.**

It is the non-transparency of the public procurement process that is a frequent shortcoming highlighted by the results of audits. In particular, the internal control mechanisms of entities should pay increased attention to this problem.⁷

The behaviour of these competitors in the public procurement process indicates their mutual cooperation and the creation of the appearance of real competition. In view of these important findings, the SAO SR forwarded the results of the audit to the Public Procurement Office for further action.

The call for the implementation of the ASDS project was announced by the Agricultural Paying Agency (further APP). The audit therefore addressed the Agency's assessment of the submitted project, finding the following serious errors:

- **the submitted project did not contain a detailed specification of the individual project item prices – e. g. hardware and software items, works or services; only the total costs were reported; acceptance of such a project prevents controllability;**
- **the project evaluation was provided by the APP internal staff, who had neither the professional competence nor sufficient experience to assess the feasibility and complexity of the project;**
- **non-compliance with contractual conditions and obligations – the composition of the subcontractors who implemented the project and their share in the project were fundamentally different from the situation specified in the NFC contract, and**
- **according to the contract of the State enterprise with the APP, the project sustainability period is set at 2028, but the company has signed an ASDS service contract with the winners of the competition only until 2020, which means that the sustainability of the project may be jeopardised with serious consequences for the State-owned company.**

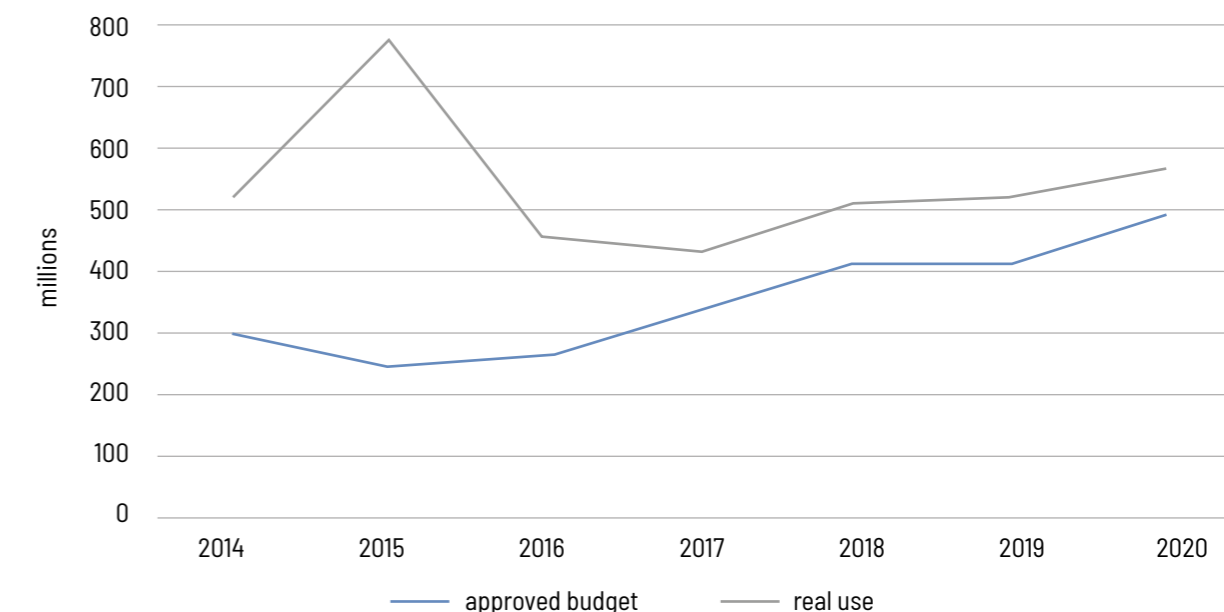
Based on the audit results, the SAO SR considers the ASDS project to be an example of bad practice – how

such big competitions should not be prepared and implemented. Although both public administration bodies took measures to eliminate those deficiencies that could be eliminated, the question of deriving personal responsibility for fatal deficiencies at all stages of the project by Lesy SR, State Enterprise SR, APP and MARD SR remains open.

- **Ministry of Economy – the crisis management support system (ISKRA)**

Building an effective public administration is unthinkable without information support. Building information systems is usually a demanding process, accompanied by requirements for significant domestic and European budgetary resources. The following graph testifies to this.

Graph 9: Total expenditure for informatisation from SB and EU funds (in EUR mil)



Source: RIS BI (21 items of the economic classification)

However, not only the SAO SR audits, but also the results of law enforcement authorities show that this area of spending public resources is too often considered not only uneconomical, inefficient and ineffective, but also that there is a lot of non-transparency bordering on corruption.

In 2020, the Minister of Economy requested the SAO SR to audit the construction of an information system for crisis management under the name **Integrated Crisis Management System – ISKRA (KA 034/2020)**. The reason for his request were doubts about the necessity, functionality and affordability of this system. Based on these serious suspicions of possible uneconomical and inefficient use of resources, the SAO SR President decided to perform an audit.

In 2013, the ME SR initiated the construction of this system. It was to **comprehensively unify the management of the processes of dangerous goods transport, economic mobilisation, crisis management and protection of critical infrastructure into a single information system**, which would include systems for working with classified

and non-classified information. The estimated costs for this system construction were less than EUR 24 mil EUR, of which more than EUR 8 mil was paid to the contractor.

In the audit initial stages, the SAO SR focused on finding out the justification of the need for this supra-ministerial information system.

The need for the ISKRA system has not been proven to the SAO SR by any internal process for identifying system requirements, resp. expert assessment of the need in the internal environment of ME SR.

Failure to justify the need for the system was probably one of the main reasons why there were fundamental changes in the project focus, its functionalities and technological solutions and in the extension of the original project plan in the individual implementation phases. **In this context, the audit found multiple violations of the Law on Budgetary Rules in the area of financial discipline and inefficiency of spending public resources⁸.**

⁸Based on verified information, inefficient spending of public funds occurred in this area for the following reasons:

- ✓ The ISKRA 1 system was not certified by the NSA SR (National Security Agency of the Slovak Republic) despite the fact that the documentation for certification was part of the delivery and was not in the production or testing environment, i. e. it has not been used and, according to the documents available, not actually functional;
- ✓ The ISKRA 2 system was certified by the NSA SR, but was not approved for operation within the internal processes of ME SR and was therefore not in test or production operation, i. e. was not used;
- ✓ the ISKRA 3 system was certified by the NSA SR, approved for operation by ME SR also for work in the "reserved" mode, but it was never actually used;
- ✓ HW and relevant documentation were delivered within ISKRA 4, but the installation was not performed because the implementation of the work was suspended.

⁷For example, audit **KA 029/2020** also points to the problem. In the **micro-project Entrepreneurial Borderland – Polish-Slovak educational initiative** implemented with a Polish partner, personally interconnected companies were approached to submit a tender for several contracts in the framework of public procurement. At the same time, the documentation from the public procurement process did not comply with the principles of public procurement – transparency, equal treatment, non-discrimination of economic entities, proportionality, economy and efficiency.

The audited entity also did not perform the basic financial control of contracts in accordance with the **Financial Control and Audit Act** on several occasions indicating weaknesses and **failures of the internal control system**.

The uneconomical and inefficient public funds spending was identified within the procurement process of the ISKRA system, where the ME SR used an exception from the application of public procurement procedures concerning contracts for which special security measures must be applied.

During the audit, facts were identified as **breaches of transparency principles**. The Ministry, for example, does not have a bid from the bidder assessed as winner for one of the system phases, despite it was of classified nature with a specific registration process.

The entire procurement process from the point of view of secrecy can be considered non-transparent with the suspicion of purposeful secrecy to apply an exception from the Public Procurement Act.

Just as the whole process of building the ISKRA system had a strange course, so was its completion. Finally, in November 2020, the system was designated by the ME SR as surplus State property, which did not, does not and will not serve in the future to fulfil crisis management tasks and was delimited to the National Security Office of the Slovak Republic. It will enter the history of information systems as another example of uneconomical and inefficient use of public resources.

Due to serious findings of the law violations and possible violations of obligations in the administration of foreign entrusted property and exceeding the powers of a public official, the identified findings and were ceded to the Government Audit Office, the National Security Office and law enforcement agencies.

• MI SR – selected contractual relations and competences

The **audit at MI SR (KA 031/2020)** also shows that the procurement of IS and their administration is often associated with uneconomical and inefficient use of public resources. When procuring IS and upgrading them, the Ministry concluded several amendments to almost every contract, which adjusted the scope of the contract matter, increased contract prices, in some cases **by up to 30%**, and postponed the completion dates. This has delayed outputs and end-user services provided. For example:

- to the contract worth **EUR 749,000** EUR without VAT, delivery date in **October 2017**, four amendments were made, which increased the price to **EUR 1.1 mil** without VAT and the delivery date was postponed to **December 2018**;
- to the contract concluded with three providers worth **EUR 795,000** without VAT, the delivery schedule was

changed, the delivery of services assigned to the three providers and the service price increased to **EUR 1.19 mil** without VAT;

- to the contract for **EUR 756,000** without VAT, three amendments were concluded increasing the price to EUR 1.11 mil without VAT and the delivery dates have been moved from **November 2019** to **December 2020**.

Contracts of 6 consulting companies worth almost EUR 13 mil were audited by the EC and the final report shows that **due to errors in public procurement, a 25% correction of more than EUR 3 mil was applied**.

Since 2013, MI SR has been responsible for the implementation of the project **“Process Optimisation in Public Administration”**. The Ministry is a public administration body responsible for coordinating the performance of State administration by municipalities, HTUs and local State administration bodies, as well as the project guarantor. **The audit showed that the proposal to optimise these processes, which should solve many unresolved problems by public administration reform, is primarily directed by external consulting companies and not by the Ministry itself, whose employees should know the best the public administration processes, their shortcomings and possible solutions. It is desirable that the project be completed and evaluated by the Ministry as soon as possible.**

The audit repeatedly raised the problem of efficiency and effectiveness of the transfer of the founding competence in regional education to MI SR. More than 300 schools and school facilities came under the founding authority of MI SR through delimitation after the abolition of regional school authorities within the reform of the ESO Programme in 2013. Expenditures on regional education make up approximately half of the MI SR budget, but MESRS SR intervenes methodically, competently and normatively. **Important processes providing regional education are thus provided by two central State administration bodies, which may not be optimal in every case.**

Regional education is financed through the MI SR budget chapter, while the budget is decided by MESRS SR based on approved standards. Funds for schools and school facilities are provided from the MI SR chapter through district offices in the regional seats in the amount determined by MESRS SR. Budgetary measures during the year are implemented by MESRS SR.

In case of emergency situations in the operation of school real estate, resp. other urgent expenditure, the budgetary measure is subject to a complicated and lengthy process. The request of a school or school facility for funds is forwarded through the education departments established at MI SR district offices, the MI SR budget department, from there to MESRS SR and finally the request is forwarded to MF SR. The importance of the order of emergency situations is also assessed equally by the MESRS SR. Isolated urgent

cases are usually solved by financing from the MI SR budget. **The SAO SR considers such a way of managing regional education to be administratively demanding and unnecessarily complicated. It recommends that MI SR, in cooperation with MESRS SR evaluate the effectiveness and efficiency of the ESO reform step, which transferred the founding competencies of regional education from municipalities to MI SR and based on the result, adopts required corrections of the reform.**

3.4.2 How territorial self-governments were managed

The SAO SR regularly deals with the issue of economical, efficient and effective management of financial resources and assets in the fulfilment of obligations of individual public administration entities. It is clear from the audit results that many problems are common to both State administration entities and self-governments, others are caused by their specific area of operation.

Territorial self-government is playing an increasingly important role in social development, and the scope and content of its competencies are constantly expanding. The volume of budgets of municipalities and local authorities they manage also corresponds to this. In 2020, the budget of the local self-government reached the value of more than EUR 6.7 bn with the municipalities' budgets being more than EUR 5.2 bn and HTUs had 1.5 billion at their disposal.

In the past year, the SAO SR focused on several aspects of the management of towns, municipalities and HTUs, but especially to the self-government property management. The most frequent findings concerned in particular:

- **Insufficient application and respect of relevant laws;**
- **The absence of clear rules for property management and procurement;**
- **Incorrect accounting practices;**
- **Non-transparent relations between the municipality and its subordinate organisations;**
- **Distortion of the amount of indebtedness;**
- **Absence of investment development plans;**
- **Formal budgetary programming, and**
- **Concluding the contracts without approval by the council and without budgetary coverage.**

A number of the above-mentioned shortcomings are concentrated in **the process of managing the property by local government entities**.

• Capital City of Bratislava and General Investor

An example of incorrect practices in the transfer of assets between a municipality and a subordinate organisation is in the audit results **KA-026/2020**, which verified **capital**

transfers and liability relations between the Capital City of the Slovak Republic Bratislava and its subordinate contributory organisation General Investor of Bratislava (further GIB) in 2011 – 2018. This organisation acts as an investor for the Capital and public contracting authority for new constructions or reconstructions of properties owned by local government.

The audit focused on this due to the fact that in the past the auditors identified risks of incorrect accounting in the transfer of assets between budgetary and contributory organisations in the financial statements of the Capital City of the Slovak Republic Bratislava (further CCB), and deficiencies were also found during the construction of the winter stadium in 2011 audit.

The audit confirmed that several serious deficiencies persisted during the audited period. They concerned, in particular, investment planning (absence of any investment plan), transfers of assets, incorrect accounting for the valuation of assets and liabilities reporting. Several errors ultimately led to uneconomical proceedings (sanctions paid / imposed by banks for late payments and fees in the amount of EUR 2.5 mil) and represented a possible breach of financial discipline, which, as an initiative by the SAO SR, was ceded to the Government Audit Office. The breach of financial discipline is a frequent audit finding by the SAO SR⁹.

Serious violations were related to **the contracts for the reconstruction of the winter stadium** (the reconstruction value was EUR 96.6 mil), which **were not approved in advance by the City Council and covered by the budget**. Insufficient coverage of ordered works in the budget led to non-payment of liabilities and assignment of receivables by suppliers to the bank. This caused the GIB debt to creditors of EUR 27.1 mil was reclassified as a bank loan, with repayments made by GIB, after receiving a transfer from the Capital's budget.

The City of Bratislava did not report this loan in its accounts, which distorted the total debt of the City. For the purpose of debt settlement, the City provided capital transfers to GIB, which the SAO SR considered a significantly non-standard and high-risk procedure, in violation of the Law. Another example of property mismanagement was the reconstruction of the City Gallery in 2012. GIB did not account for the reconstruction until five years after its completion, and the Capital City did not account for this at all. **Discrepancies in accounting are also evidenced by the finding that GIB has assets worth more than 72 mil. EUR, for which it has no documents and cannot identify them.**

The total financial value of various erroneous operations and non-standard transactions between the City and its contributory organisation was expressed by the SAO SR in

⁹Violation of financial discipline is one of the frequent conclusions in audits. Audit **KA 006/2020**, focused on the HTUs management, showed that **HTUs violated financial discipline in the amount of EUR 295,590.38 by using public funds beyond the scope of the authorisation** resulting in their higher use, uneconomical and inefficient use of public funds and violations of rules and conditions for the provision of funds from the public administration budget. Audit **KA 015/2020** – suspicion of violation of the financial discipline in 4 municipalities in the amount of EUR 1.051 mil; audit **KA 029/2020** – the municipality of Bertovce in sum of EUR 861089 due to non-compliance with the legal way of handling public funds; the village Mútne: violation of financial discipline worth EUR 1.5 mil.

the amount of almost EUR 100 mil. **Due to the suspicion of committing a criminal offense of distorting the data of economic and commercial records, the Office ceded the audit results to the law enforcement authorities.**

Up to 70% of capital transfers from the founder were used by the municipal organisation GIB only to repay the debt for the winter stadium (which was subsequently entrusted to the administration of another municipal organisation). The company's own revenues and activities for which the organisation was established were realized only to a minimal extent. **It is therefore up to the founder to consider whether an organisation with about twenty employees, which mostly only pays old debts, is justified, and whether it would not be better able to procure investment activities by the Capital City Council with its extensive body of experts.**

Based on the findings, the SAO SR recommended the City of Bratislava to adopt clear rules for the management of public property, to improve methodological management and cooperation between the founder and subordinate organisations.

• Municipalities assets management

The results of audit **KA 009/2020** also clearly document that many other municipalities and cities still do not behave like a good manager when dealing with property. **An example of frequent non-compliance with and circumvention of the Property of Municipalities and HTUs Act is the transfer of immovable assets. This is happening despite the relatively strict legal regulations for the transfer of these assets.**

Managing and disposing of one's own property at its discretion is one of the strongest powers in the self-government of towns and municipalities. However, this right is not borderless and every step associated with the transfer of the property of the municipality and HTU to another entity must be considered not only in terms of current needs, but also especially with regard to the future. In the past, municipalities and cities too quickly and often and not advantageously got rid of the property that they now lack for the development of the municipality.

As part of its last year audit activities, the SAO SR decided, on a sample from twelve selected towns and municipalities in the Žilina Region and HTU, to review and evaluate local government procedures for transfers of its immovable assets and evaluate the application of the relevant rules in 2016-2019.

The performed audit generally confirmed several risks related to the transfer of municipalities immovable assets:

- **Insufficient and ambiguous regulation of the municipality immovable assets management in the rules of management; especially small municipalities do not have any principles of property management;**
- **Transfer of property that the municipality does not keep in its accounting and does not know its value;**
- **Absence of expert opinions;**
- **Transfer of the municipality's property without analysis of its need for the development of the municipality in the future, and/or assessment of sale and lease benefits;**
- **Non-compliance with legal and internal rules, obligations in the municipality immovable assets transfers;**
- **Transfers of property for a symbolic price of 1 euro (circumvention of the ban on donating real estate for free);**
- **Lack of internal control in the municipality real estate transfers - transfers of the municipality real estate remains practically out of the attention of the chief comptrollers, and**
- **Failure to ensure public control over the municipality immovable assets management.**

Of the procedural findings, the most serious were such shortcomings as the non-approval of the commercial public tender conditions, changes in the purpose of the property and transfers of real estate by the municipal council, sale, resp. in the case of HTU, the lease of property to persons not registered in the register of public sector partners. Three municipalities and HTU sold the land as land with a construction on it owned by the buyer, even though no buildings stood there. Not all municipalities and HTUs have complied with the obligation to publish information in accordance with the Municipal Property Act and the HTU Property Act (intentions of transfers in a specified manner) and the Freedom of Information Act (minutes of municipal council meetings, signed purchase contracts within a specified period). **Thus, the local self-government did not ensure effective public control of the transfers of its property.**

In addition to the already mentioned shortcomings and violations of relevant legal norms, the audit points to one of the serious problems the SAO SR considers to be significant.

Despite declarations, especially by HTUs, about the cost-effectiveness of the property transfer through a commercial public tender, in most cases the reasoning institute "worthy of special consideration" is used. It is a legal possibility to transfer the municipality and HTU property for the reason stated above. In the audited sample, this method dominant. Between 2016 and 2019, municipalities in the north of Slovakia used it in more than 66% of transfers and the HTUs used it up to 70% of cases of such transfers.

The municipalities and HTUs interpret the wording of the law differently. In principle, they are divided into two groups. One group of municipalities, in accordance with the logic of the Municipal Property Act and the majority opinion of the professional public, approves the transfer of real estate, in so-called two-rounds system. Thus, first the municipal council approves the intention and method of transfer in first round, then this intention and method is published and then the municipal council approves the actual transfer of property in second round.

The second part of municipalities and all HTUs explain the law in such a way that a reason worthy of special consideration has simplified the process of transferring real estate and there is no reason for it not to be used to the widest extent. The procedure is then as follows: without a prior decision by the councils about the method of transfer of immovable property due to special consideration, they published such an intention for 15 days and subsequently the councils approved the already published intention, method of transfer and the transfer itself.

The SAO SR, in the current wording of the Municipal Property Act, unclear and ambiguously regulated process of approving the intention and method of immovable assets transfer due to special consideration, contains many risks that ultimately harm the interests of the municipality and its citizens. Not only it does not determine what this special consideration is, but it leaves the municipalities an absolutely free hand in this regard.

The risks confirmed by the audit are low transparency, insufficient justification for such transfers and the impossibility of excluding possible clientelism. **In its reasoning, the local governments stated almost exclusively only the interests of the buyer, but its own interests, how the municipality / local government would benefit from such a transfer, were justified only exceptionally.** It's the same with the price. Unless municipalities sold their assets through competitive procedures, **it was not the rule that the purchase price corresponded to market prices or an expert opinion, which was often not even prepared,** when transferring for reasons of special consideration, but also when selling land under the buyer's buildings.

The SAO SR points out that while the State, as the owner, is obliged to sell its property at a reasonable price, the territorial self-government does not have such an obligation and the determination of the purchase price is at the discretion of the local authorities. In addition, the sale of municipal property below the market or even at a symbolic price may in certain circumstances have consequences most municipalities are not aware of. By selling assets below the market price, the municipality or HTU provides the purchasing economic entity with indirect financial assistance within the meaning of the State Aid Act,

which results in statutory obligations that municipalities usually do not fulfil.

In this context, the SAO SR recommended to MF SR as the body responsible for the relevant Act:

- **to comprehensively address the issue of territorial self-government property transfer by legislative amendments to the acts on municipal and HTUs property for reasons of special consideration, especially from a procedural point of view, so that it is unambiguous, clear and unquestionable, and**
- **to introduce the invalidity of a legal act for non-compliance with the procedural provisions of the Municipalities Property Act and the HTU Property Act.**

Violation of public procurement rules is a frequent audit finding in the municipality property management. In particular, the issue of determining the contract estimated value (further CEV) is a common problem in the procurement process. This is also evidenced by the results of the HTUs audit HEI, the most common errors being:

- **no CEV was set before the announcement about the public procurement;**
- **not all parts of the contract were included in the calculation of CEV;**
- **unclear determination of the CEV structure - it is not clear whether it includes VAT or not;**
- **unproven method of determining CEV for low value contracts, and**
- **the final prices of several orders were higher than the set CEV; the range of deviations ranged from 7.93% to more than 32%.**

In its reports when commenting the audit findings, the SAO SR usually states the failure of the internal control system. The control system of public resources was gradually developed, the institute of internal audit was established and there were also changes in the internal control system of self-government. If an internal control system were to work effectively in the economic subjects, ministries, municipalities and cities already mentioned, many problems could have been avoided. Therefore, in its strategy, the SAO SR decided to devote special activities to the assessment of the internal control system and will address this topic in the longer term.

3.4.3 Public administration internal control system is only partially effective

In assessing the reasons why problems arose in the form of audit findings in the audited organisations, the SAO SR generally states that the **internal control system is insufficiently effective.** If the internal control system in the above-mentioned audited public administration entities functioned in accordance with its mission, several, in particular systemic problems would probably not arise. Therefore, in its audit strategy, the SAO SR focused on the

long-term assessment of the internal control system level in public administration.

- **Internal control system in State administration organisations**

In public administration management, in contrast to the private sector, **there is still a strong enough internal belief that control is an integral part of management and its functions can significantly help not only prevent errors and shortcomings, but above all can contribute to continuous improvement.** Internal control is often taken only as the fulfilment of legal obligations, which corresponds to its staffing and focus on less important aspects of spending public resources. In many budgetary organisations, control departments have been abolished and only statutory forms of financial control are provided. The departments of internal auditors and organisations managing hundreds of millions of euros are also undersized, often having only 2 internal auditors, i.e., the number stipulated by Law. Due to the austerity measures, which also concern the reduction of State administration employees, there is a risk that savings will also be sought in the internal control departments.

Therefore, in 2020, the SAO SR focused its audit (**KA 032/2020**) on the internal control system in MESRS SR with special emphasis on the question of how and with what results the internal control system deals with sports expenditure. MESRS SR has about EUR 1.6 billion annually at its disposal which are distributed to ensure tasks in extremely important areas of society development such as education, science, research and sport. The National Sport Development Program was approved for 2020 in the amount of EUR 75 mil.

The control of the economical, efficient and effective use of budget resources was ensured by the Control Department with 11 employees performing about 10 to 15 controls per year at the Ministry and in its subordinate organisations. In 2019, the department performed 1 control focused on sports, in 2020 none. The capacity of internal audit is also insufficient, in the number of 2 auditors, who also deal only marginally with expenditure on sports. The Ministry, within the sports section, had 9 employees, who were mainly engaged in the administrative control of subsidies for individual sports organisations.

It is then clear, **the area of the Ministry's expenditures aimed at ensuring the tasks of the Ministry, including expenditures for sports, is not sufficiently comprehensive and systemically covered by internal control activities.** The information system to support the internal control of sport has been under construction for a very long time and its completion could significantly contribute to the subsidies provision transparency for sport.

Based the SAO SR audit results, it came to the conclusion that **the Ministry internal control system is only partially**

effective and there is room for improvement. The most important reserves of efficiency and effectiveness are the risk management and especially internal audit. **Thus, the Ministry top management does not objectively obtain a sufficient degree of assurance that the set processes will lead to the required goals without serious errors and problems.** The system is undersized in terms of capacity and does not allow systemic control of all significant processes associated with the Ministry own budget.

The **institute of the Sports Chief Comptroller** (further SCC) established by the Sports Act and appointed by the Government of the Slovak Republic, has a special position in the control of expenditures for sport and various activities of sports entities. Organisationally, SCC is located in the structure of the Ministry and, in addition to the obligations arising from the Sports Act, SCC participates in the fulfilment of several tasks of the Ministry.

In the audit results, the SAO SR points to the unusually wide and materially diverse tasks of SCC, which relate to the performance of professional control in sport, financial control of spending funds on sports by State and municipal organisations, training of comptrollers in sport and a number of other duties. **No control institution has such a range of powers in the control system, and there is no such type of comptroller in sport in any EU country.** In addition, the issue of financial control of budget funds in accordance with the Financial Control Act is performed by at least three other bodies: **MF SR, the Government Audit Office and the SAO of the Slovak Republic.**

A particularly serious aspect of SCC position is the **unusually high degree of independence** in all decisive aspects of the performance in control activities, which is associated with **the risk of possible subjective and non-transparent decision-making.** The SCC is autonomous in almost all decisions related to the exercise of control. **The SCC performance is not subject to work quality control, no authorisation is required for a control execution, and SCC decides on the control focus and performance on free will.**

Based on individual findings and in order to increase the effectiveness of the internal control system, the SAO SR proposed to the Ministry several **recommendations**, of which the main ones were:

- **strengthening the capacity of departments that control the expenditure of resources to achieve the set objectives by the Ministry, including expenditure on sports;**
- **building a sports information system so it meets the set goals and is also a place of central records from all public resources related subsidies or other funds directed to the sports and sports investments, and**
- **abolish the institute of the SCC, which is a non-systemic element of the control system in public**

administration, through a legislative amendment to the Act on Sport.

- **Chief comptroller as important element in internal control system in self-government**

The local territorial self-government in the Slovak Republic consists of more than 2,900 towns, city districts and municipalities, in which, in accordance with the Municipal Establishment Act, the **Chief Comptroller** (further CC) also acts as one of the elements of internal control. CC is to supervise not only the observance of regulations, but also the economy in towns and municipalities in the Slovak Republic. The self-government manages significant amounts of financial resources and assets, the development of which over the last 5 years is shown in Annex 2 of this report.

The long-term experience of the SAO SR in the self-government auditing points not only to a number of shortcomings in the activities of towns and municipalities, but also to **shortcomings related to the insufficiently effective activities of the CCs.** The auditors wanted to find out why these shortcomings occur in the form of analytical work. The necessary analytical data were provided by all cities, city districts and municipalities of the Slovak Republic.

There are more than 1,500 CCs in the Slovak towns and villages. A major problem for the local governments functioning (from the point of view of a well-functioning internal control system) is **absence of CC, even though this is a legal obligation.**

The analysis further revealed two major systemic weaknesses related to the CC work commitment in the job. The problem with the performance of auditing activities occurs when the CC's work engagement is too small, then we can talk about the so-called micro-engagement comptroller; or the amount of all CC's engagement is disproportionately high (being a CC in too many municipalities) and then we can talk about the so-called macro-engagement comptroller.

The problem with **micro-engagement CC** is the lack of time to perform control activities, which in practice represented less than 15 hours per month. **More than a third of such CCs work in Slovak municipalities.**

For **macro-engagement comptrollers**, the problem is again a lack of time, but this time the reason is a **high number of jobs**, in other words, a high number of municipalities, where one and the same person is the CC. In Slovak municipalities, **it is not uncommon to find CC whose amount of all duties exceeds 150, but also 200%** of a regular job. Put into practice, such "supermen" would spend 12 to 15 hours a day in control activities. Such a situation poses a risk of the formal performance. In this context, **the analysis revealed that only 77 of our CCs representing about 5% of their total number, provide control activities for 25% of all municipalities in Slovakia!!!**

The system of the internal control system of towns and municipalities, provided through CCs, is not negligible even from the point of view of the allocated financial resources intended for their activities. The volume of these public resources is growing every year and in 2020 it amounted to more than EUR 13 million.

Based on the results of the analysis and audit activities, the SAO SR recommended that MI SR amends the legislation either by an amendment to the Municipal Establishment Act or by a new law that would include the activities of the local government Chief Comptrollers. It is also necessary to set criteria for the function performance, whether in terms of qualification requirements, experience, etc. The current criterion requiring a minimum secondary education is no longer sufficient.

The SAO SR above-mentioned view about the issue of the CC again documents the problem of fragmentation of the country into a disproportionately high number of municipalities and cities. Small municipalities with the same responsibilities as large ones are not objectively able to perform full and high-quality controls, and the CC position and tasks in such conditions are performed more formally than as a real tool of municipal management.

The findings from the CC operations the SAO SR offered to the public, again underline the need to continue the public administration reform so that municipalities are able to fulfil their original and transferred competencies as best as possible and in the interest of citizens.

4 PUBLIC POLICIES AND FULFILMENT OF THEIR GOALS IN SAO SR AUDITS

4.1 Social policies

The task of the State is to create conditions for a dignified life for the population, with an emphasis on very vulnerable groups, such as young families with minor children or the elderly. Special attention is required for socially excluded groups, in which marginalized Roma communities (further MRC) are heavily present. As part of its audits, the SAO SR defined the main risks to these groups and defined areas of policy failure. MRC belongs to the group of people with low qualifications and with difficult access to the labour market. The unemployment rate of this group in the Slovak Republic is 2.5 times higher than the EU28 average. In the number of educated preschool children, Slovakia is at the tail of Europe. The availability of social services for the elderly is currently becoming an increasingly urgent challenge, especially in connection with the demographic development of the population. Seniors over the age of 65 make up approximately 16% of the population of Slovakia, but demographic forecasts assume an increase in 2030 to 21%. A continuing problem is the ever-opening scissors between the living standards of individual regions, despite specialized Government instruments appearing to be ineffective. A well-managed society should be

set up in such a way that it improves or eliminates the situation of the most vulnerable over time, which, however, the results of the SAO SR's inspections in this area cannot confirm.

4.1.1 The employment in the least developed regions grows slower than required

One of the most serious socio-economic problems in Slovakia are regional differences in economic performance, which are subsequently reflected in low employment rates, below-average wages, but often find their manifestation in regional differences in tests of students' knowledge.

The Government of the Slovak Republic pays attention to the issue of the least developed regions. In 2009, the first law was adopted to reduce regional disparities. In 2015, it adopted the Support of Least Developed Districts (further LDD) Act. The list of LLD is managed by the Centre for Labour, Social Affairs and the Family. While in 2016 there were 14 such districts, in 2017 - 2018 another 6 were added. At the end of 2020, 20 districts were entered in the list, mostly from the east and southeast of Slovakia, where the registered unemployment rate for a certain period was higher than the legal limit according to the above Act.

Based on action plans prepared for each LDD separately, the Government offered the districts real tools, such as - **benefits in drawing European structural and investment funds, more favourable conditions for obtaining investment incentives, or the possibility of drawing a regional contribution.** These tools were intended to help reduce disparities between regions, increase their competitiveness and thus the quality of their inhabitants' life. Given the general recognition that the key to address the regional disparities is to increase employment, **any measures taken to support LLD should lead to job creation in particular.**

The SAO SR therefore focused its audit (KA 013/2020) on the effectiveness of providing the regional contribution as an additional source to finance the LLD development. **The audited entities were MIRD SR and selected district offices (further DO), which are advance organisations of the MI SR (Rimavská Sobota, Poltár, Revúca, Bardejov, Kežmarok, Sabinov, Svidník, Košice-okolie, Rožňava and Trebišov).** The selected sample of DO included mainly districts entered in the LLD list in 2015 (eight districts with action plans prepared 2016 - 2020).

From the beginning of providing the regional contribution until 31 December 2020, contracts were concluded with the beneficiaries in the total amount of EUR 62.2 mil, which represented a contractual level of 84.20% of the total amount in approved action plans. In 12 LLD with approved action plans for the period 2016 - 2020, the contracting rate was 97.34%. More than 2/3 of all contracts were concluded in 2019 - 2020, when the provider was MIRD SR.

The SAO SR audit showed that regional contributions were not drawn according to the expected schedules, especially in LLD with action plans 2016-2020. The main problem was the low drawing at the beginning of the implementation of the action plans and the subsequent transfer of unspent funds to the following years, which increased the pressure to draw them towards the end of these action plans validity. Almost 60% of the available funds for 2020 for LLD with action plans for the period 2016-2020 were unspent balances from previous years.

The SAO SR considers the following the main factors with negative impact to draw the regional contribution:

- **frequent changes of the contribution provider** - in the course of five years the contribution providers were up to three different institution: MTD SR, the Office of the Government of the Slovak Republic and since 2020 the Office of the Deputy Prime Minister for Investment and Informatisation;
- **Insufficient readiness of projects** - especially in the beginning of action plans implementation approved for 2016 to 2020; projects had shortcomings in the

preparatory and implementation phase, e.g., legal relations to real estate have not been settled, there have been frequent changes in the project activities and budget, they have not been in line with action plans or other legal regulations, especially in State aid;

- **complexity of the processes approving annual priorities** - projects financed from the contribution are approved by the Government based on a recommendation from district authorities and the Council, in which representatives of central State administration bodies and heads of regional offices operate¹⁰;
- **disproportionately long time of the process in granting the right to the regional contribution** - the average time from the application submission for the regional contribution to the conclusion of the contract in 2016 to August 2020 was 184 days, while significant differences between individual projects were found; **the longest processing time of the application in question after the conclusion of the contract was 777 days and the shortest 12 days,** and
- **non-transparency in the inclusion of projects in the draft annual priorities and their evaluation** - the DO published calls on its website, which was part of the MI SR website, which was very difficult for orientation and obtain the necessary information. The calls **did not contain information about the sum of resources available for the call, or even the maximum and minimum sum for one contribution.** At the time of the call for proposals, the DO did not even have information about the exact amount of funds available for the call. This data was only available when the projects were evaluated by the committee or, from 1 July 2020, by the commission. **In the absence of the above data, the applicant did not have the opportunity to assess the suitability of the submitted project in advance, resp. it could not adjust the intention with regard to financial possibilities.** The minutes of the committee meetings did not contain information about the criteria that formed the base for the committee for decision to include the project in the draft annual priorities. Transparent criteria were not even part of the calls.

Beside the above problems, the SAO SR most significant findings confirm the opinions on **the questionable contribution of supported projects to create jobs in the region,** as the most important factor in reducing regional disparities. **The share of contracts for which the projects did not state the jobs creation represented up to 40% of all concluded contracts.** In the period from 2016 to 31 August 2020, contracts were concluded with a commitment to create 1183.5 direct jobs and 536 indirect jobs in total value of EUR 34.1 mil. It is downright impossible to find out what the reality is, because there is no central record of jobs created.

Therefore, the SAO SR considers the fact that MIRD SR does not centrally record the number of actually created jobs based on the implementation of projects supported by a

¹⁰ For example, about 14 projects inclusion in the range from EUR 15 000 up to EUR 190 000 into the draft annual priorities of the Poltár district for 2019, in accordance with the Support for LDD Act, up to 70 persons were to decide at various levels of approval. However, other participants were also involved in the whole process - employees of offices, like in the framework of preliminary comment proceedings and intra-ministerial comments.

regional contribution to be a serious problem for evaluating the effectiveness of projects and their contribution to increase employment. The evaluation of job creation took place for each project individually within the control of the regional contribution accounts. The audit did not make it possible to quantify the total number of jobs actually created from the regional contribution provided and thus assess its direct impact on reducing unemployment in LLD.

The SAO's auditors sought an answer to the effectiveness of LLD support by comparing the registered and long-term unemployment rates in supported and neighbouring districts. The SAO SR points out that, despite the granting of the status of LLD and their support, in 2016-2020 the decline in the registered and long-term unemployment rate was more striking in neighbouring districts of LLD than in LLD.

NRA assistance through the regional contribution, as set up and provided so far, has helped municipalities and cities in LLD to build infrastructure on their territory or co-finance their own needs, rather than reducing unemployment in the districts. **The regional contribution thus does not fulfil its basic mission - to reduce unemployment and thus increase the economic level of districts.**

In connection with a more efficient and effective use of regional contributions, the SAO SR recommended that MIRD SR manage the provisioning processes so that projects with higher added value for employment and development of NRAs are supported in particular.

The SAO SR audit devoted to one of the most significant problems in Slovakia confirms that **we are still not experiencing significant positive changes in regional development, which would lead to a gradual and clear reduction of regional disparities, which remain at approximately the same level as in the post-transformation period in the 1990s. The number of least developed districts has not decreased in 5 years, on the contrary, it has increased since 2016 by 6.**

The classification of the least developed districts as a starting point for determining the regional contribution, as a tool for mitigating differences, does not bring the desired effects, and in a policy aimed at gradually levelling out regional differences, according to the SAO SR, it is necessary to look for a new strategy.

4.1.2 Unclear role of the community centres

Poverty and exclusion as a result of long-term unemployment or marginalisation are common in the least developed districts. One of the tools to help people in need or in social exclusion, who for various reasons do not have the opportunity to participate fully in the economic, cultural and social life of society, are **community centres**. One of the centres' tasks is to create opportunities for individuals

to grow personally at different stages of their lives and to protect them from the threat of social exclusion.

A total of **374 community centres were in Slovakia last year, in which almost 600 employees helped 50 000 clients. Community centres provide a wide range of services and adapt their activities to the conditions and requirements of the specific community.** They help both adults and different children age groups. Their clients are mostly people from marginalized groups, whom the centres help in preparing for school, attending or meaningful leisure time. Community centre employees also provide social counselling and help clients build work habits for their employment. Adults are also taught to work with official documents, postal orders or financial literacy, if necessary, with personal hygiene or medical assistance.

In order to find out how community centres work in practice, the SAO SR performed an audit on a sample of community centres in the Banská Bystrica self-governing region (**KA 018/2020**). Its results pointed to a number of problems associated with different understandings of the mission of community centres, their sustainability and the assessment of the results of their activities.

The SAO SR audit showed that the State **lacks a clear definition of the centres focus and tasks.** From current legislation, various strategies, projects, etc. it is not entirely clear to whom they should focus their activities, i.e., to solve minority problems by providing social services or community development problems. The question is whether the services of community centres fall exclusively within the original competencies of the municipality or whether it is also a transfer of the performance of social policy to the municipalities.

The audit of the SAO SR showed that there are many questions that arise from the ambiguous definition of the position and mission of community centres. Should community centres provide their services and assistance to people in need in general, or should they focus on marginalized Roma communities? Their tasks also include promoting the inclusion and integration of disadvantaged groups - should they therefore involve the majority population? Without answering these questions in the form of a clear legislative definition of the status and management, it will not be possible to finance and manage the activities of community centres responsibly and effectively.

The provision of social services in community centres is **considered to be an original competence of municipalities.** However, in fulfilling the social goals, the State emphasized the importance of community centres by including them in the national priorities for the development of social services and also by supporting them in six EU-funded projects totalling more than EUR 75 mil. **However, the community centres should not be understood only as a tool for**

solving the problems of a certain community in a given municipality territory, as the goals of inclusion are also of the society as a whole. Therefore, to consider the topic of community centres only as a matter of the municipality is insufficient and a wider participation of the State in ensuring that community centres fulfil the demanding societal tasks of inclusion is necessary.

The SAO SR audit in community centres drew attention to **the key problem of their financing, its long-term unsustainability.** If community centres are to make a significant and significant contribution to the gradual eradication, or at least not the deepening the poverty and social exclusion, they deserve help in the form of **systemic change. It is also necessary for those municipalities and cities that do not finance their community centres from European Union programs, to receive State support.**

A systemic change in the management of community centres **should be the adoption of a comprehensive strategy, according to which all actors would be involved in solving this issue. Both at the horizontal level - the Government and the ministries concerned, and at the vertical level - municipalities, cities and HTUs.** The strategy must clearly divide the competencies, identify the main responsible actor and set measurable evaluation criteria. Without these elements, there is a risk that public funding will go to the wrong activities in the wrong places and with a high risk of not meeting the set goals.

For the efficient functioning of community centres, it is necessary, for the State, to provide their methodological guidance, which the audit proved to be very necessary.

The SAO SR therefore recommended that the MLSAF SR methodically lead community centres to their strategic management and ensure the evaluation of the quality of community centres, regardless of the source of their funding. A uniform methodology should ensure that the broad focus of services provided in community centres does not deviate from their main purpose. In this context, it is also crucial for the State to create conditions for the education and development of employees of community centres, as such a need is growing.

4.1.3 New systemic approach to nursing services is required

The SAO SR deals with the issue of social services for the second year. While two years ago it focused on providing institutional social services for seniors and specific groups of citizens, last year audit (**KA 017/2020**) focused on social services. The results of both audits pointed to the necessity and justification of providing both methods of social services, both requiring a substantial change in the system of their provision, including financial security.

The natural effort of seniors, who have difficulty coping with various tasks of everyday life or live alone, is to stay as long as possible in their natural home environment. This effort is also common for people with permanent or severe health problems. Field social services in the form of home care services have a role to play in meeting these needs. The demand for them is still growing and the current pandemic has also shown the importance of field social services in ensuring a dignified life for those dependent on the help of society.

The provision of home care services belongs to the original competencies of cities and municipalities and is paid for from share taxes. At present, only less than a third (954) of local governments provide care services directly, other municipalities and cities provide it through non-public operators, respectively they do not provide it at all. It is estimated that up to 80% of care for dependent persons is provided by members of the close or extended family - the so-called informal carers.

Provision of social services by local government or other providers is supported by EU resources. Since 2014, a total of EUR 141 mil has been allocated to the provision of these services in various projects. However, there was no significant increase in the number of clients - recipients of care services or caregivers. **While specifically in 2017 a total of about 9,200 nurses worked in Slovakia, in 2019 it was only 7,000. The number of recipients was approximately stable at 13,000 clients, but there was a change from 4,000 in 2017 to 2,800 in 2019.** In recent years, the capacity of residential facilities has not increased either.

At present, the funding of the care service is strongly linked to European resources. The SAO SR audit also showed these resources have so far been used primarily to reimburse the caregivers' wages, not to finance the required qualitative development of these services. EU-funded projects have only increased the availability of care services in the short term, but there has been no significant change in the system to ensure the sustainability of care services.

An example of such a short-term solution for the provision of care services is the National Project Support for the Development and Availability of Field Care Services, with an allocation of EUR 5 mil which helps to provide care services only to small municipalities with less than 1 000 inhabitants until May 2021, but **the provision of services after this date is endangered again.**

The SAO SR audit showed that nurses' wages **usually accounted for up to 90% of expenditures for this service.** The average wage for a nurse in 2019 was 586 euros for public providers and only 441 euros for non-public providers. Despite the fact that last year there were more than 2,000 people with the necessary qualifications or experience registered as unemployed, there was no interest in this

job in Slovakia. On the other hand, there is a “phenomenon” of Slovak carers in Austria, of whom more than 20,000 work there, while their income, according to available information, for a two-week shift is EUR 600 to 900. It is clear that the caregivers’ wages in Slovakia – slightly higher than the minimum wage – is not motivating and does not contribute to the stability of the system.

The basic precondition for planning the volume and structure of social services should be **a community plan of social services compiled by the municipality based on of national priorities**. The SAO SR audit confirmed the inconsistent and formal approach to planning. Municipalities did not fulfil the obligation to draw up community plans on time in the audited period (for example, in 2018 only 636 local governments fulfilled the task within the required period), in two thirds they were prepared by external companies, but with a number of shortcomings and inaccuracies. A community plan should not only be a document for a document, but a basic tool for planning community development, including services to citizens.

The audit also pointed to several other shortcomings in the activities of social service providers. Providers of care services in the sense of the Social Services Act **are not obliged to keep records of applicants**, resp. register pending requests for the provision of care services. In connection to that, the audited municipalities declared that they processed all applications positively according to the requirements from the population. On the other hand, non-public providers, despite more expensive services, cannot satisfy all those interested in services. **Due to the lack of records, according to the SAO SR, it is not possible to evaluate the actual demand for care services**. Municipalities often do not publish more information about the conditions of providing care services than required by Law. However, it is essential that the citizen has access to comprehensible information about the possibilities and availability of social services to which the citizen is entitled or might need.

Almost half of the audited municipalities did not have generally binding regulations regarding field services in accordance with the Law. They either did not reflect on changes in the Law or even excluded certain groups from the service provision. Some municipalities restricted the services provision to only during working hours on working days, thus failing to respond to the recipients’ requirements. **The audit also showed that, despite the set system of quality control for provided services, which must be provided by Law by every provider, in practice such control was almost never carried out. The Ministry, as the guarantor of the public policy for social services, hardly supervised the social services provision at all**. The assessment of provided social services quality started only in September 2019, even in only four cases.

The audit also addressed issues of **information support services. There is no central information system for social services, which MLSAF SR plans to introduce from next year**. It should also include a record for service requests. Without the obligation to keep records of unapproved applications, even municipalities themselves cannot know what is the real demand for care services. Inaccurate information also affects the strategic planning of social services at the central level and at the level of self-governing regions, but also cities and municipalities.

Seniors over 65 make up approximately 16% of the population of Slovakia, but demographic forecasts assume an increase in 2030 to 21%. **Unless systemic measures are taken to ensure the necessary volume of social services and their sustainability, Slovakia and especially small municipalities will face acute unpreparedness to the rate of population aging**. This raises the question of whether small municipalities are able to exercise the competences in social services in adequate quality and scope in relation to the requirements from citizens. **This audit also confirmed the very limited ability to fulfil its duties, especially in local governments with a small population**.

The SAO SR audits of the system to provide social services for the elderly, disadvantaged citizens and citizens with permanently impaired health show that the system in its current form does not fully meet the required tasks and goals set in national strategies or the Programme Statement of the Government of the Slovak Republic. Its main shortcoming is its long-term unsustainability.

The recovery plan adopted by the Slovak Government this year has the ambition to address most of these systemic shortcomings. Therefore, in the future, the SAO SR will continue its audit activity to verify whether the planned systemic changes were put into practice and with what results.

4.1.4 Pre-primary education has to be real priority also in SR

Addressing the issues of accessibility and improving the quality of **pre-primary education** is a long-discussed social and professional topic related to education, nutrition, social and health protection. It forms a comprehensive package of support and assistance for children from birth to primary school, regardless of social situation, health disadvantage or other characteristics. It also reduces the risk of repeating the school year, the risk of placing a child in a special school and increases the child’s chances of graduating from high school.¹¹ The EU makes pre-primary education one of its priorities. By 2020, according to Agenda 2020, an average of 95 percent of all children from the age of four to compulsory schooling were to participate.

Slovakia has joined fulfilling these objectives and incorporated them into strategic documents. Many analyses of this goal fulfilment have identified a **significant lag of the Slovak Republic behind the EU goals, even though is declaring active commitment to them**. While training in 28 countries of the European Union was at the level of 95.3 percent in 2018, in Slovakia it was only 82.2 percent. **Slovakia had the third lowest share of children in kindergartens from four years to compulsory schooling from all EU member states**. We were also overtaken by neighbouring countries – the Czech Republic, Hungary and Poland. The low share of training concerned mainly children from socially disadvantaged backgrounds, marginalised groups and children with disabilities.

In addition to the social challenge, the failure to seize opportunities to develop human potential also has significant economic impacts. **According to OECD estimates, bringing the employment and labour productivity of the marginalised Roma community closer to the Slovak average would increase GDP by more than 12 percent and State budget revenues by five percent of GDP.**¹²

The audit **(KA 024/2020) “Expansion of the Preschool Facilities Capacities”** was made by the SAO SR in the **Košice Region as it was in the last place among all eight regions in Slovakia in 2019** with a 70 percent share of five-year-old children in preschool facilities. Large differences in children’s training were also identified by the audit in the region.

The kindergartens are financed in Slovakia by the local governments. It obtains resources from share taxes from personal incomes. If municipalities decided to create pre-school facilities, they could use four sources – their own funds, credit framework, State subsidy and EU funds. The SAO SR verified the drawing of funds from the State and EU sources provided by three ministries.

The auditors inspected **12 projects for expanding the capacity of preschool facilities** in various parts of the region in 2015 – 2019. Half of the projects were implemented from EU funds for more than EUR 2.8 mil, and half of the projects from the State budget for almost half a million euros. During the audit, emphasis was placed not only on the implementation of projects, but especially on their sustainability. Errors were identified in the determination and evaluation of **measurable project indicators due to the formal approach of local governments**.

The audit points to **the fragmentation in the financing of kindergartens new capacities, which also had an impact on the different setting of conditions for applying for a financial contribution**, such as the amount of subsidy per created position, maximum amount of support, duration

of sustainability of projects. There was also a **low rate of absorption of contracted funds for EU projects averaging 52 percent**.

The contractual conditions for drawing and settling funds were simpler and clearer in the case of State subsidies. However, it was possible to obtain a significantly higher amount of funding for European projects. **More than 14 months have passed since the signing of the contract to the approval of the new capacity for the nursery by the regional public health office for projects financed from the State budget. For European projects, it was up to 20 months**.

The actual occupancy of the affected kindergartens was also checked. While the capacity in the audited kindergartens increased from 463 to 911, **their real occupancy reached an average of 76%**, although in the justifications of the need to finance the project the city and municipality pointed to a high number of unprocessed applications for of children admission to kindergarten. An example is the village of Drahňov, where the kindergarten was expanded almost sixfold from the original 24 places to 140. However, the real occupancy reached only 22 percent.

Eleven projects were found to **have failed to comply with contractual conditions and applicable legislation**¹³. A serious finding was the setting up of control mechanisms in municipalities and cities, where after the completion of projects the chief comptrollers did not perform a single control focused on the efficiency and effectiveness of drawing public resources or the fulfilment of measurable indicators.

Despite the above findings, **the SAO SR considers projects for the expansion of kindergartens from European and State financial sources in municipalities and cities to be good practice**. The aid was targeted, without it the municipalities would in most cases not be able to make investments in pre-school facilities from their own resources. The SAO considers the long-term involvement of the State ensuring the goals of the training of pre-school children to be necessary.

The SAO SR therefore recommended MESRS SR analyse the capacities of kindergartens and their actual use, and subsequently adopt tools to reduce regional differences in the training of children in kindergartens. In cooperation with MIRD SR, create a financial scheme in order to ensure the stabilisation of the network of kindergartens so that they are able to meet the goals of the Slovak Republic in the training of preschool children.

¹² Revision of expenditure on groups at risk of poverty or social exclusion. Transversal Report, MF SR, January 2019, p. 6.

¹³ **The most shortcomings were identified in public procurement**. Their number and administrative complexity threatened the fulfillment of time schedules. The shortcomings also occurred in compliance with the Accounting, Financial Control Act or the Free Access to Information Act. The charters of schools did not contain mandatory requirements. The City of Gelnica put the reconstructed nursery into use without a valid decision of the regional public health office. With the project, the city expanded its capacity by only ten places, which was the minimum when applying for a grant. The funds were mainly used to address the energy performance of the building. In the village of Seňa, the local self-government did not apply sanction mechanisms from the contract for the provision of services by external management, no energy certificate was prepared during the building approval, as it was not a significant renovation of the building.

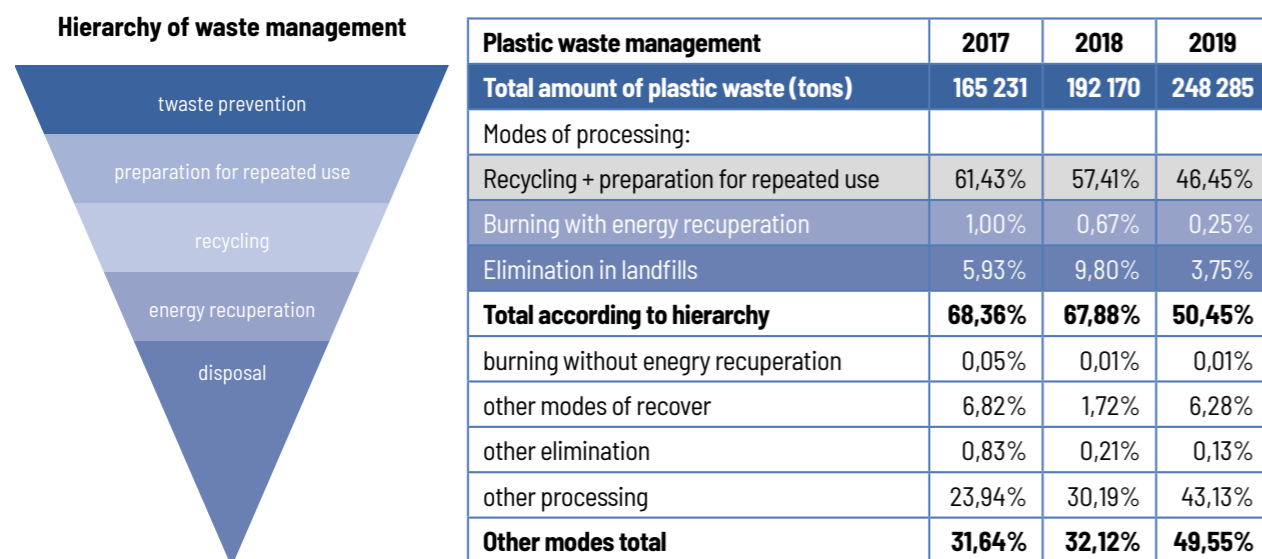
¹¹ BARNETT, W. S. Long-Term Effects of Early Childhood Programs on Cognitive and School Outcomes in The Future of Children Long-term Outcomes of Early Childhood Programs. 1995, Vol 5, No 3, s. 25 – 50.

4.2 Various forms of environment audit are often ineffective and data inaccurate

The SAO SR has been dealing with the issue of waste management for a long time. Last year, its performance audits focused on assessing the situation in generation and management of plastic waste, looking for an answer to the adequacy of measures taken by the State to improve the current situation (KA 033/2020). The audit was performed as a part of an international audit involving 12 other EU supreme audit institutions. Further audit was devoted to the issue of landfills, specifically the process of management and control of landfills and waste management (KA 010/2020). The landfills are potential polluters with an impact on soil and the quality of water resources. Slovakia is a country that is extremely rich in supplies of quality drinking water, of which up to 80% is located in underground sources. The importance of drinking water sources for the functioning of society is unquestionable. The threat of groundwater sources of drinking water pollution, its monitoring and early warning were identified in the analysis of the SAO SR as significant risks, the existence of which was verified last year in an audit (KA 004/2020). The services of an external specialist for the given issue were also used in the audit. The SAO SR often uses the services of experts in special public policy topics.

Public environmental policies are among policies that are required to increase **efficiency and effectiveness** in the long term. Through its audits of environmental policies, the SAO SR focused mainly on verifying the effectiveness of the processes of public administration bodies, which play an irreplaceable role in the given area and the activities public resources are spent on. The audits also show that **the legislation for environmental protection is insufficient, in particular it does not sufficiently ensure the enforceability of liability for infringements and sometimes even gross disregard for laws.**

Picture 2: Hierarchy of waste management and plastic waste management



Source: own processing and computations, data from MEn SR

4.2.1 Attaining the set degree of plastic waste recycling is unachievable

The main goal of the EU member states is to achieve a rate of preparation for reuse and recycling the municipal waste by at least 55% by 2025. A specific target is also set for plastic packaging waste to achieve a recycling and preparation rate for the re-use of this independently monitored type of plastic waste of at least 50% by 2025.

The SAO SR audit confirmed that there are no significant problems in transposing the obligations associated with the disposal of plastic waste from European directives into Slovak legislation. However, significant shortcomings in the functioning of these obligations in practice have been identified, as well as significant risks to meet the targets EU countries should achieve.

The audit of the fulfilment of the most important obligations the Slovak Republic took over from the European legislation came to the following conclusions:

- **Waste management in accordance with the waste management hierarchy**

This aspect requires that the MEn SR make priority efforts to take such measures that will lead to the prevention of plastic waste. In the event of its generation, measures should be aimed at ensuring that as much of such waste as possible is reused, resp. recycled. If plastic waste cannot be recycled, it should be recovered. The last resort to dispose of plastic waste is to put it in a landfill. The waste landfilling should only be used as the last resort. MEn SR is working with an estimate from various stakeholders, according to which **more than 30% of the total sorted waste ends up in landfills.**

The hierarchy of waste management, and how the SAO SR evaluates the management of plastic waste according to this hierarchy, is in the following figure.

From the data about the total generated plastic waste, it can be seen MEn SR is not succeeding in fulfilling its main task with its measures, which is to reduce the amount of generated plastic waste; on the contrary, this amount is growing every year. **The data document that in 2017 and 2018, a third and in 2019 up to half of the plastic waste was processed in a different way than determined by the hierarchy shown.** The most important component of this other disposal was the collection of plastic waste, which represents a great potential for increasing the recycling rate.

Through this audit, the SAO SR seriously questioned the accuracy and credibility of data about plastic recycling and the mass of plastics ending up in landfills. It points to the facts that indicate **the statistics on waste management are significantly incorrect and have a low informative value, which was also admitted by MEn SR in its statements.**¹⁴

The statistics about recycling rates are considerably overestimated, they do not reflect reality, so the question is how far away from reality the indicators about plastic waste are, but also other waste management indicators. The error rate within the reporting of municipal waste was already pointed out by the SAO SR audit in 2018, according to which every third municipality stated significant errors in its reports about the municipal waste. The SAO SR recommends MEn SR set up control mechanisms at all possible levels of reporting and reporting data about plastic waste.

For the sake of objectivity, it should be noted that the reporting problem does not only concern the Slovak Republic, but also the EU as a whole, which has decided to adopt stricter reporting rules which, according to preliminary estimates, will lead to a decrease in the reported average recycling rate of plastic packaging in the EU from 41% to 29%.

- **Obligation - to sort plastic waste in its territory and process it has limits**

The statistics about the plastic waste show that its volume is growing faster than it is recycled, suggesting that the level of sorting is not improving.

The plastic waste is the most problematic type of waste in terms of its processing. While e.g., with glass is possible to achieve a very high recycling rate, the plastics are much more demanding. There are a large number of types of plastics on the market with different compositions, with varied suitability for recycling. Another important factor for the recyclability of plastics is their contamination during sorting. **According to the analyses MEn SR works with, it is possible to process only 38% of sorted municipal plastic, of which 24% are PET bottles. The remaining 62% is not suitable for other processing, they can only**

be landfilled. The processing of plastic waste in SR has a number of problems, the most significant are insufficient to critical processing capacities.

- **The extended producer's responsibility institute is not functioning enough**

Several shortcomings were also identified by examining the functioning of extended producer's responsibility. The system has been operating in SR since 2016, but in practice there are a number of application problems that affect its functionality. Manufacturers should bear 100% of the costs associated with the life cycle of plastic waste. **The problem is that, according to estimates, about 15-30% of producers are not registered in the system and the costs are borne by other participants.** Even for a citizen, the idea of "the more you sort out, the less you pay" does not manifest itself enough in practice. In the absence of data on the behaviour of the individual, the principle requires a collective effort, which often does not coincide with the individual, and thus **the impact of the system on the citizen is almost zero and does not result in reduced waste fees.**

Information and awareness-raising activities were also assessed as insufficient by the audit, mainly due to the fact that producers through their organisations are responsible for this activity. It is questionable what motivation private producers' companies, which are financially responsible for each additional ton sorted, have to raise awareness of the need for waste sorting.

The common denominator of the above-mentioned problems of plastic waste management is also the insufficient control activity by the State, which is significantly undersized, as well as the errors and inaccuracy of data for various acts of plastic waste management.

This is one of the reasons why it is practically impossible for the SAO SR to verify State data about plastic waste reported by various stakeholders, while each of them has its own motives when reporting. **Within the EU, illegal waste disposal is considered a serious organised crime.** The inaccuracy of the reported data is also affected by an outdated information system, which is unsatisfactory and contains major shortcomings. In addition, the inspections performed by the Slovak Environmental Inspectorate use the lower limits of fines not motivating for the inspected entities, as they do not take into account the seriousness of the identified deficiency.

4.2.2 State supervision of landfills has reserves and obstacles

One of the problems of waste management in SR are landfills and their frequent impact on the deterioration of the environment and health of citizens. Therefore, in the audit

¹⁴ The SAO SR processed data from various analyses and estimates of the MEn SR about plastic waste ending up in containers for mixed waste, non-recyclable waste, etc. The results of the recalculations show that the indicators about on the waste recycling in for 2017 - 2018 were not realistic. For example, the mass of recycled plastic waste reported in 2018 was around 110 thousand tons, but recalculations showed that it could be a maximum of 38 thousand tons. **Officially, SR showed a recycling rate of 57% in a given year, but recalculations showed that it could be a maximum of 20%. The official figures from 2019 were approximately the same as the calculations by SAO SR - approx. 46%.**

cycle concerning the environment, an audit was performed last year devoted to the issue of State supervision in waste storage - **KA 010/2020**.

In SR, landfilling of waste is the most common way of its disposal. **In 2019, 101 landfills were used. The environmental pollution from old, unused landfills, which are a serious environmental burden and remain a persistent problem.** The SR is facing an investigation by the EC in the matter of non-compliance with European legislation regulating the conditions of landfilling. In March 2019, the EC sent a "Reasoned Opinion" to the SR, according to which there should be 35 landfills in the SR not meeting the conditions of operation and closure in accordance with Council Directive 1999/31 / EC of 26 April 1999 on landfills.

An environmental challenge in the strategic objectives of the Slovak Inspectorate for Environment (further SIE) for 2018 - 2022 is the closure of all old landfills that did not meet the EU legislation and for which the EC is conducting infringement proceedings against the SR, the infringement process. In accordance with its communication with the EC, MEn SR to close 24 landfills by the end of 2021. The SAO SR considers the deadline of December 2021 for the closure of selected landfills to be endangered. The closure of landfills is financially demanding, eight landfills did not have a sufficient or no earmarked financial reserve for their closure and recultivation. In the event of non-compliance, the SS may be sanctioned similarly to the fine imposed of EUR 1.8 mil for a landfill in Považský Chlmec.

The SAO SR audited how **MEnSR, SIE and district authorities perform State supervision tasks in the given area.** The SAO SR considers the State supervision in the environment to be a key tool for detecting violations of environmental legislation, as well as for detecting risks and environmental pollution. An important part is the imposition of remedial measures, the elimination of identified deficiencies, as well as the imposition of sanctions for non-compliance with the conditions specified by regulations. **The effectiveness and efficiency of State supervision are therefore, from the point of view of the SAO SR, important attributes influencing its performance, moreover, the findings form important inputs for specific management and guidance processes in State administration in the environment.**

In the recent past, landfill authorities executing the State supervision have identified a number of serious shortcomings, such as dumping of illegal, hazardous waste in landfills without a permit for their storage, incorrect closure of the landfill, as well as various reasons for delays in the planned closure of landfills causing local environmental pollution, or endangering its quality.

Despite this positive assessment of the results by the activities of State supervisory authorities, the conclusions of the audit document that all have considerable gaps in the performance of their duties and the State performance of

supervision cannot be assessed as effective and efficient to the extent desirable.

The management and direction of State supervision by MEn SR was ineffective in several respects. It does not require bodies performing State supervision in the environment, including in waste management, to be performed and based on strategic priorities for each area. The absence of a strategic approach means in practice that its priorities are not clear and the concentration of supervision on operations with the most significant potential for environmental pollution and breaches of legislation is not sufficient in any case.

The SAO SR therefore recommended that MEn SR guides SIE and district authorities in the document for determining strategic goals preparation - priorities for the performance of State supervision in specific areas.

The SAO SR assesses the transposition of important provisions of the Council Directive in question into Slovak legislation as **inflexible and made with a significant delay.** MEn SR introduced the obligation to issue final decisions only by amending Act 79/2015 Coll. on Waste, effective from 1 January 2019, which **the SAO SR considers to be an ineffective procedure in the management of State administration processes, including State supervision.** The lack of definite decision was one of the shortcomings identified by the EC in its reasoned opinion.

Also, the SEI system for verifying the timeliness and completeness of compliance with imposed remedial measures from previous inspections is assessed by the SAO SR as ineffective, especially in cases where inspections of compliance with imposed measures are performed with a significant delay, for example up to 14 months after the deadline. The SAO SR therefore recommended that the SEI take systemic measures so the inspection is aimed at timely verification of compliance with all imposed remedial measures.

The SAO SR considers the assessment of environmental risks of operations, including landfills, to be inaccurate and subjective in selected cases. Despite the fact that the evaluation is made in accordance with Act 39/2013 Coll. on Integrated Prevention and Control of Environmental Pollution, based on the audit results, the SAO SR sees room for streamlining supervision by **increasing the degree of accuracy of assessment, reducing the degree of subjectivity in assessment, as well as differentiating the weights of individual assessment criteria.** The SAO SR considers the adoption of measures that would contribute to a more objective assessment of environmental risks as a way for the SEI to perform its work not only in accordance with the law, but it is also an important space for further improvement of activities.

The audit also found that the **SIE does not comply with the legal obligations of State supervision regarding environmental burdens, which include more than 800 old, unused landfills.** Failure to perform these mandatory inspections increases the risk of failure to detect possible deficiencies in work plans and remediated landfills, which could cause pollution, respectively environmental damage. The risk of not meeting their planned closure by 2021 is high.

The audit results show that the SEI does not have sufficient financial and personnel capacities required **by growing legislative requirements for the scope and quality of State supervision.** This situation is reflected in the insufficient number of sampling and analyses of installations, including landfills, which the SEI makes only in rare cases **significantly reducing the effectiveness of impact of the control and possible detection of environmental pollution.**

The SAO SR also considers that the amendment to Act 409/2011 on Certain Measures in the Area of Environmental Burden imposes on inspection obligations as one of the reasons for the situation in State supervision by the SEI. The provision of financial resources should have been increased within the scope of the impact clause of the Act, however, the organisation's budget was not increased. The problems with the personnel and financial provision of supervision are similar in the district offices.

The SAO SR audit results point to several factual and procedural problems, the elimination of which is not given sufficient competence to the Ministry and the SEI. This is a similar problem, which was also pointed out in the audit of plastic waste management. In cases where **no or sufficient earmarked financial reserve has been created by landfill operators for the closure and reclamation of landfills, this is generally uncollectible from the operators and the costs in question must be borne by the State or local government.**

The SAO SR sees room for improving the performance of State supervision in amending legislation so as to ensure the enforceability of the special-purpose financial reserve for the closure and reclamation of landfills, and to enable control bodies to enter operations without restrictions in justified cases, even without the consent of their statutory organs.

4.2.3 The monitoring of the subterranean drinking water resources as a tool for early warning does not work

Another SAO SR audit (**KA 004/2020**) also focused on the effectiveness of one of the forms of audit activities of State

administration entities in the environment and its use for the adoption of adequate measures. During the audit, the Office examined how the system of monitoring the drinking water groundwater sources, which are increasingly polluted by various substances that penetrate into groundwater works in Slovakia. The audit was performed in five inspected entities, namely at MEn SR, which is responsible for water protection, and its three subordinated organisations: Research Institute for Water Management (RIWM), Slovak Hydro-meteorological Institute (SHMI) and Dionýz Štúr State Geological Institute (DŠ SGI) which perform the Ministerial tasks in this area. At the same time, an audit was performed at the Central Agricultural Inspection and Testing Institute, which is a budgetary organisation of MARD SR.

The audit aim was to find out **how effective is the system of monitoring groundwater sources of drinking water,** which should also act as a tool for "early warning" of the danger of water endangering pollutants. Monitoring should identify increasing trends in pollutants entering groundwater from both point and surface sources of pollution. The audit therefore sought answers to the question of **whether the monitoring system in the period 2015-2020 was well set up and can identify not only current risks, but also future threats to the quality of underground drinking water sources.** It also focused on verifying **whether the relevant stakeholders received the correct monitoring information and that the responsible authorities made timely and correct decisions to take effective action.**

The administrative tool for enforcing groundwater quality protection measures are river basin management plans, which are updated every six years. This systemic protection of groundwater is referred to as the DPSIR principle (motive forces, impacts, status, impact, measure). **When drawing up river basin management plans, the competent authorities have not applied this principle, which guarantees a link between the source of pollution and the measure.**

The audit identified several system deficiencies in all steps of the six-year planning cycle. Given that the systemic protection of groundwater sources of drinking water begins at the source of pollution, the audit focused on whether all sources of pollution are mapped and whether the individual information sources are interconnected and complex.

The result is **the finding that a register of point and area sources of pollution, which is the key in the water protection system, has not been created.** The individual databases were not linked, not all existing data about water pollution were used and the data from the databases were not sufficiently processed. These shortcomings were negatively reflected in the quality of the development of the first step of systemic groundwater protection, for example in the description of groundwater bodies, in the risk analysis of

groundwater bodies and in conceptual models. The results of the first step were **not sufficient input data for the next two subsequent steps, namely for the proposal of monitoring the chemical status of groundwater bodies and the elaboration of a measures programme.**

From the results of monitoring the chemical status of groundwater bodies, trends in the content of pollutants were to be evaluated. However, these trends were not processed according to the requirements of European legislation, were not processed from all available data, or information on the evaluation of pollutant trends from polluters was not available. **The assessment of the chemical status of groundwater bodies was based on data that were not comprehensive, either in terms of their number or in terms of their treatment.** The assessment of the chemical status of groundwater bodies **did not demonstrate a link between pollution sources, impact and the status of groundwater bodies**, which is a prerequisite for proposing an effective measures programme to meet environmental objectives.

For the purposes of implementing the requirements of the Water Framework Directive, the Groundwater Working Group was created by MEn SR, coordinated by the Research Institute for Water Management (RIWM). It did not perform an expert assessment of the partial tasks performed by the organisations cooperating in the elaboration of river basin management plans (especially RIWM, SHMI, and DŠ SGI) in a mutual context. **MEn SR did not perform a regular analysis of the consistency of the groundwater protection system (DPSIR), associated with the identification of deficiencies, did not enforce the processing of documents for river basin management plans according to EC methodological guidelines and did not ensure cooperation with State water authorities to prepare the river basins management plans.**

Based on the identified shortcomings, the SAO SR evaluated the system of monitoring underground drinking water sources as insufficient, but not set in the required manner. The results of this system are not effective enough to prevent current and future threats to the deterioration of groundwater drinking water resources.

SAO SR recommended to the MEn SR

- **To ensure systemic protection of groundwater (DPSIR system), which guarantees the connection between the source of pollution and effective measures to achieve environmental objectives;**
- **To build a comprehensive register of point and area sources of pollution by linking existing databases to enable information to be shared by all stakeholders, and**
- **To achieve the filling of databases by all interested parties (organisations within the competence of the Ministry, State water administration, polluters)**

according to the requirements of the WFD (Water Framework Directive).

As is clear from the results of the audit, one of the serious obstacles to a more efficient and effective operation of the public administration in the information era is the lack of cooperation between the bodies and organisations responsible for the system as such and its individual components. The SAO SR encounters this obstacle almost regularly during the audits, when several entities are involved in solving problems. Insufficient sharing of information and data also reflects the current state of public administration informatisation.

4.3 Business environment support and lowering the bureaucracy

Slovakia has been moving downwards for a long time in the rankings of competitiveness, an important indicator of a country's economic development and innovation capacity. **Changing the direction of the shift is also conditioned by a more favourable business environment, where the creation of public policies has their irreplaceable place.** Following its Programme Statement, the Government of the Slovak Republic **adopted a document mapping the state of the business environment and took several measures to remove regulatory and financial barriers, bureaucracy, cost and time burden, stability and predictability of the environment.** However, these barriers are not just barriers to business, but are often part of the life to an ordinary citizen. In 2020, the SAO SR, with its three audits, also focused on the evaluation of various public policies that affect the business environment and the level of bureaucracy.

4.3.1 Once is still not enough

The audit (**KA 003/2020**) was focused on reducing the administrative burden in the implementation of the official agenda of self-government, i.e., the problem concerning entrepreneurs and citizens of municipalities and cities. After ten years of informatisation of public administration and five years since the enforcement of the mandatory electronic exercise of public power, the **Act Against Bureaucracy came into force in 2018.** It prohibits public authorities from requesting the citizens data already held by other authorities. This is an application of the pan-European **Once Only** principle. This is to save citizens and businesses time and money.

In 2020, the SAO SR **examined whether and how selected municipalities and cities**, in all their official activities, effectively and efficiently fulfilled the principle **Once Only**. In evaluating the setting of the whole environment and its predictability, the auditors came to the conclusion that the original **National Concept of Public Administration Informatisation (further NCPAI) is not fulfilled and the**

tasks were not fulfilled repeatedly. There is no plan of procedure and deadlines for the elimination of all statements or data sharing. The spontaneous approach to solve the problem also resulted in the finding that the abolition of the obligation to submit one paper extract led to the obligation to submit another paper document.

Not only the regulatory framework but also the legislative environment is problematic. This still makes it possible to require confirmation by a special regulation, or it has created situations where a certain statement is obligatorily submitted for one agenda, for another it is provided by a public authority itself. **According to the SAO SR estimate, a comprehensive amendment to the legislation will require several years of effort.**

There are still areas that represent an extraordinary bureaucratic burden for the citizen and the entrepreneur when dealing with the local Government. **Examples from practice are proceedings in spatial planning or building regulations.** It turned out that MTD SR in the methodological guidelines enabled building authorities to request extracts from the real estate cadaster from clients in the event of "their increased burden". **The disproportionate burden on residents in construction proceedings is also caused by the lack of information system for this agenda and the absence of a central record of electronic decisions.**

However, a key condition for any progress in anti-bureaucratic efforts in public administration is the **availability of quality data in individual databases, reference registers.** According to the NCPAI, all such adjusted data should be declared as reference by the end of 2017. The SAO SR points to **a break of more than three years** during which the data were not analysed.

An equally important condition for cutting the red tape is **the availability of a platform for sharing these data.** Its introduction is not yet planned, although according to the NCPAI it should have been operational for the third year. Thanks to the rapidly implemented MIRD SR project - the **oversi.gov.sk** portal, public authorities have been connected to selected data since 2018. **However, this "temporary" solution is not entirely in line with the objectives defined in the strategic documents.**

The audit results confirmed that **municipalities and cities with more than 2,000 inhabitants** in official activity mostly, and **cities with more than 20,000 inhabitants** use this portal exclusively. The consumption of data by audited **municipalities with less than 500 inhabitants** is problematic, of which more than 40% **had no connection at all** to public administration data.

In direct contact with the citizen, the SAO SR evaluates the anti-bureaucratic action of cities and municipalities

as mostly passive. **In dealings in the relationship client - municipality / city, resp. municipality / city - client, inertia of previous habits persists.** In their internal regulations and local by-laws, towns and municipalities often required proof of use by an extract from the business register, a criminal record register or a trade license. Requiring paper documents, contrary to the legislation, was thus a common phenomenon in municipalities and cities.

At personnel interviews, a certificate of good faith was unjustifiably required from the applicant, and in public procurement an extract from the commercial or trade register. **There were specific cases where cities requested documents, which they themselves issued as building authorities. Citizens thus continued to submit statements when changing the building inventory number, approval decisions, zoning decisions, building permits, trees cut-out permits, entry permits or special use of urban roads.**

The measures taken by the audited entities to implement the principle Once Only were assessed by the auditors as insufficient. The level of exercise of local Government competencies is often related to the number of its inhabitants. Specificity, fragmentation of local Governments and a lack of resources all seem to be an obstacle for the little ones to fulfil the principle Once Only. The digitalisation of self-government still lacks methodological management, guidance and a coordinating body (such as DEUS) that would be able to work on the implementation of e-Government objectives in the specific conditions of the entire territorial self-government. In this context, the SAO SR defined recommendations for the elimination of shortcomings both for the central State administration body and for cities and municipalities.

4.3.2 Also Financial Administration must comply with the schedules

The second audit (**KA 023/2020**) in reducing the cost burden on business entities was devoted to compliance with the legal deadlines for the excessive VAT deduction refund. The business sector has often pointed to an asymmetry in the relationship between the State and the entrepreneur in terms of fulfilling tax obligations. While the State, represented by the Financial Administration (further FA), requires compliance with legal deadlines and penalises non-compliance, the opposite is often not the case. Examples were often very long VAT controls, exceeded deadlines for the return of excessive deductions subject to control, etc., which significantly complicates the financial situation of entrepreneurs.

In 2017, the Government of the Slovak Republic proceeded to solve the problem and adopted **the institute of interest for excessive VAT deduction.** The institute compensates

entrepreneurs for withholding the over-deduction funds during the performance of a tax audit after six months of its duration. The second institute related to VAT deductions is **the interest for late refund of the excess VAT deduction**, which is paid by the FA to the taxpayer if the statutory deadline for refunding the excess deduction is not complied with.

On the other hand, non-compliance with this obligation by the FA creates entitlements to the State budget from which this interest is paid. When introducing this interest into practice, **the MF SR estimated the amount of interest at EUR 4.275 mil per year**. The quantification was based on the data of the financial report on the decomposition of excessive deductions for 2015, e. g. from data on the delay in which excessive deductions were paid in a given year.

The SAO SR performed an audit in the FA aimed at complying with the legal deadlines for refunding excessive VAT deductions. The findings suggest the FA has taken steps since this establishment to speed up the processes involved in administering excessive VAT deductions in

compliance with legal deadlines and is paying more attention to the issue.

In the first three years since the introduction of interest on excessive deduction, the FA paid **interest on excessive deduction to 745 payers of VAT in the total amount of EUR 497 000. Nevertheless, in only 28% of cases the tax administrator did not decide on the award of interest within the statutory period and in 29% of cases paid interest after the period stipulated by law.**

In the case of **interest for late refund of the excess VAT deduction**, the statutory deadlines were also not complied with in all the cases. **In 32% of cases, the tax administrator did not meet the deadline for granting interest. In 71% of cases did the tax administrator pay interest after the deadline set by Law**, i. e. not only was the excess deduction repaid late to the tax payers, but at the same time the interest paid to them for that reason was paid out late. **Thus, in 2017 to 2019, the FA paid interest for the delayed return of the excess deduction to 377 taxpayers in the total amount of EUR 77 000.**

Table 4: Overview of cases and amount of paid-out interest by FA in 2017 to 2019

indicator	2017		2018		2019	
	interest EUR	cases	interest EUR	cases	interest EUR	cases
Interest granted and paid from excessive deduction according to Article 79a para. 3 of the VAT Act	125 765 eur	240	238 925 eur	300	132 250 eur	205
Interest awarded and paid for late refund of excess VAT deduction according to Article 79 para 3 of the Tax Code	19 879 eur	173	32 693 eur	129	24 810 eur	75

Source: computation by SAO SR based on financial report

The audit revealed that the tax administrator did not discuss all cases of damage caused by late payment of interest in the claims commission, thus failing to act in accordance with the internal management rule. From the total number of cases of delayed refund of excess VAT deduction, according to the Tax Code, 75% were corroborated in the claims commission and in the case of interest for delayed refund of deduction under the VAT Act it was 64%. Only the minimum amount of interest paid – EUR 1 000 – was (re)paid by FA employee who caused the delay due to negligence.

The SAO SR considers a serious shortcoming that FA **does not have an analytical tool that would clearly provide information on interest paid** on excessive

deductions under the VAT Act and interest on late refunds of excessive deductions under the Tax Code. Although the FA introduced analytical records for one of the interest rates from 2018, the SAO SR audit revealed signs of errors. In the audited period, the FA spent tens of thousands of euros on the development of an information system for tax administration. From the above example, **it is clear that the tax information system still does not provide comprehensive support for tax administration**, although data about VAT, its payment, excessive deductions, arrears, the results of inspections, etc. are extremely important for reducing the tax gap in this tax. Due to its extraordinary importance for the State budget revenues and the business environment, it should have comprehensive analytical and information support today.

4.3.3 The possibilities for more effective direct support for farmers are not used sufficiently

In the sectoral structure of the Slovak economy, agriculture, from the point of view of competitiveness at all its levels, belongs to its most sensitive component. The EU has placed great emphasis on agricultural policy since its inception. **The EU common agricultural policy**, as an institute, has been in place since 1962 and was significantly transformed in 2013. Its importance in the EU policy system is evidenced by the fact that it implements up to 38% of the EU budget. **The system of direct payments was created in 1992** as a tool for the temporary solution of the situation in agriculture and is still applied today. **The direct payments in 2014 – 2020 represented 68% of the common agricultural policy budget.** This instrument of compensation payments is intended to provide significant support to Slovak farmers.

Direct support in Slovakia reached almost EUR 450 mil in 2018 and in 2020 they exceeded EUR 500 mil. They are financed from EU sources and from the SB of the Slovak Republic. They are distributed to farmers in Slovakia within support schemes. They should ensure the productive function of agriculture, land management and the maintenance of the rural population. They are made in the form of current transfers to entities or persons managing the land, after meeting the specified conditions. Across the EU, direct payments are eligible. They are paid each year through an application for payment based on the number of hectares of agricultural area cultivated, crops or animals kept, or as support for the greening process or as a payment to young farmers. **Despite the declining trend in 2017 and 2018, the most frequently paid are area and environmental payments.**

At the turn of 2019/2020, the SAO SR made an audit of the Direct Support System (**KA 020/2019**). The audit was focused on direct support, resp. separate direct payments in the main entities – the Agricultural Paying Agency (further APP) and the MARD SR, but also for tens of applicants. **It assessed not only the legislative regulations of direct payments in Slovakia and their compliance with EU law, but also the setting up of the system, financing, i.e., the whole cycle of such a payment – from the farmer's application, through on-the-spot control performed by the APP to the disbursement of funds.**

It should be emphasized that when transposing EU legislation into national law, **the Slovak authorities did not use all possibilities to guarantee the efficient use of European and national resources for direct support and to prevent abuse of the system.** The audit results confirmed that **in Slovakia, not only the owner or lessee of the land can receive direct support, but anyone without proving a legal relationship to this land.** However, there is also no dispute settlement mechanism in cases where several applicants apply for support for the same land.

The SAO SR drew the attention of the audited entities of the State administration to the fact that direct payments should not be used to compensate for the loss from another business or activity of the applicant. However, the Slovak legislation does not define **the share of the main agricultural activity in comparison with the other activities of the applicant**, and therefore the APPA does not deal with it at all when deciding on financial support. At the same time, EU legislation presupposed that the Member State would set objective and non-discriminatory criteria for deciding about granting/declining payments in order to meet the objectives of the common agricultural policy. **Indirect subsidies of activities not related to agricultural activities do not belong to them!!**

MARD SR deals with the issue of direct payments and intended to incorporate proposals for legislative amendments into the Act 504/2003 about Leasing the Agricultural Land, Agricultural Holdings and Forest Land. It is obvious that the problems pointed out by the SAO SR in the audit findings are long-term, while the State administration bodies implementing agricultural policy knew about them, but did not solve them and thus did not prevent frequent abuse of the system.

As part of the audit, SAO SR also performed on-site inspections of applicants for direct payments, but no significant deficiencies were found. In this context, SAO SR drew attention to the extreme workload of APP staff, as there were 70 on-the-spot inspections per inspector. In the system of selection of applicants whom at the APP would perform the inspection, the SAO SR pointed out **the possibility of influence / intervention by the human factor.**

SAO SR recommended to APP:

- **To digitalize the whole system of direct support processes; the transparency of the processes would be increased and the full electronic submission of aid applications could minimise delays in processing the APP applications, reduce the administrative burden on both APP staff and applicants, but in particular reduce the error rate;**
- **To develop clear, unambiguous and controllable process maps – process diagrams that would speed up and streamline the entire process of processing and checking applications in the APP;**
- **To incorporate diagrams of procedures by the inspected entity into internal manuals;**
- **To introduce a catalogue of objects and areas used for agricultural activity with examples of those not eligible for direct support;**
- **To speed up the updating the land blocks in the Agricultural Area Identification System (LPIS), which identifies agricultural land in the case of direct support, and**
- **To update databases regularly.**

4.4 Protection and security

The protection and security are the goal of many public policies - from fiscal policy to the protection of the country's security, its economy, the environment to the protection of human rights such as the right to work, a decent life and social and health security. Last year, the SAO SR focused on how mineral wealth is protected in the Slovak Republic, how the country is prepared for unforeseen events that require the maintenance of certain necessary resources, but also how the protection of citizens against infectious diseases is ensured.

4.4.1 The minerals are not protected in the spirit of the SR Constitution

According to Art. 4 par. 1 of the Constitution of the Slovak Republic: "The mineral wealth, caves, groundwater, natural healing resources and watercourses are owned by the Slovak Republic. The Slovak Republic protects and enhances this wealth, uses the mineral wealth and natural heritage gently and effectively for the benefit of its citizens and future generations."

The setting of long - term goals and tools for the efficient use and protection of mineral resources, while respecting the principles of sustainable development of society and environmental protection, was last updated in **the raw materials policy of the Slovak Republic in 2004**.

The purpose of the Mining Act is to establish the principles of protection and rational use of mineral wealth, especially in defined areas. According to the Mining Act, mineral wealth consists of deposits of reserved minerals, so-called exclusive deposits, natural rock structures and underground spaces created by the extraction of deposits of oil, combustible natural gas or salt, if they are suitable for the storage of gases or liquids, and natural rock structures suitable for the use of geothermal energy.

The mining, resp. **mining of exclusive deposits** or other mining activities **may** be performed within the scope of **business activities by the organisation, based on a mining permit**, to the extent and under the conditions stipulated by the Mining Act and special regulations. The mining area is determined for the mining of an exclusive deposit of a certain mineral or group of minerals. **The fees for the possibility to mine a mineral owned by the Slovak Republic are subsequently - payment for the mining area and payment for the extracted mineral.**

The audit (KA 014/2020), which was performed based on a received complaint, was also focused on **the protection and efficient use of mineral wealth**. This concerned in particular the suspicion of **incorrect application of the rate in the award of compensation for extracted minerals to a specific mining company**. The audit also reflected other

risks identified in the audit preparation. The setting of legislative processes and the fulfilment of the objectives of the raw materials policy of the State were verified, including the verification of the fulfilment of obligations and the exercise of rights in the transfer of mining rights from the State to another person. **The audited entities were the ME SR, the Main Mining Authority and the selected District Mining Authority.**

The SAO SR identified several systemic shortcomings during the audit:

- **The raw materials policy of the Slovak Republic has not been modified and adapted to the development of the economy since 2004.** Although the proposal for a new raw materials policy was completed in 2018, the process of submitting it to the Government was suspended with the decision that all public policies should be based on and in accordance with the prepared document "Vision and Development Strategy of the Slovak Republic until 2030". **In this context, the SAO SR drew the attention of the ME SR to the need to ensure the updating of raw materials policy, to supplement it with related legal regulations and new knowledge about domestic raw material resources and their use in new economic conditions. At the same time, take into account the principles of a social and ecologically oriented market economy in the context of EU rules and regulations.**
- **The application of a uniform system of classification of reserves and sources of mineral resources according to the recommended UN methodology is not yet introduced in the legislation of the Slovak Republic.** MEn SR has developed a methodology for processing the classification of reserves and sources of solid minerals; however, this is only incentive. **The SAO SR therefore recommended that ME SR implement a recommended UN methodology in mining legislation a uniform classification of reserves and sources of mineral resources also accepted by the EU.**
- **Legislative protection of mineral wealth in SR does not guarantee that the State, as the owner of mineral wealth, will adequately benefit from it.** The audit revealed the fact that the SR legislation does not stipulate the valuation of exclusive deposits of mineral wealth in the conditions of a market economy. Although the MEn SR has an updated overview of the mineral resources and is updated annually by MEn SR as these reserves are not value assessed, and, from the point of view of State tangible assets, it is worthless mineral wealth. **The SAO SR recommends ME SR develop a mechanism for valuing exclusive deposits of mineral wealth, for example in the phase of elaboration of documentation for environmental impact assessment, and implement it into mining legislation. The choice of the form of**

valuation and the frequency of its reassessment is up to the political decision itself.

The audit also showed that one of the essential legislative regulations, namely the Mining Act, does not fulfil its function sufficiently with the existing principles of protection and use of mineral wealth. Here are some examples.

- **The law does not distinguish between the depreciation of reserves of an exclusive deposit, their exclusion from the register and the depreciation of reserves by their transfer from on-balance sheet (currently usable) to off-balance sheet reserves.**¹⁷ Such a case requires a clear and specific specification in the legislation, as by **depreciating stocks by removing them from the register, the State relinquishes its ownership free of charge.**
- **The law allows for the free transfer of the right of mining from the State to another person.** Subsequently, this other person may transfer the mining area, without benefit to the State, contractually to another person. **By transferring the mining area to another person, the mining areas were transferred practically permanently to private companies, although the State remained the owner of this mineral wealth. This mineral wealth is "leased" by the State to mining companies for low "rent" - for payments for mining areas and for payments for extracted minerals. While in the Czech Republic, for example, the payment for mining areas is 37 euros per hectare per year, in the Slovak Republic it is only 7 euros per hectare per year.** In the case of State income for extracted minerals, in the Slovak Republic it is a percentage derived from the costs and revenues of the mining company. **The Czech method of calculating this fee applies the rate of payment to the amount of pure metal in the final product of mining and processing of extracted ore. In its application in the Slovak Republic, the amount of payments for the State, for example for mined gold ores, would be several times higher and more realistic with respect to the profit of the mining company after tax.**
- **Legislation in the surrounding countries also regulates the possibility of increasing the rates of compensation for extracted minerals, e.g., based on the development of market prices.** Our Mining Act and related legislation do not provide for such a possibility. **Since the adoption of the Government regulation on compensation for mining areas and extracted minerals in 2002, payment rates have not been adjusted until 2020.** In this context, the SAO SR recommends reconsidering and realising the method of payment for extracted minerals, as payments from extracted minerals, and to introduce regular adjustment of the rates of individual minerals.

The examination of the application of the rate in the mining declarations by the mining company that was the subject of the complaint, **it was found that the mining company concerned applied the rate for minerals from which metals can be industrially produced, excluding gold and silver ores, in its mining declarations at 0.1% rate and not the rate applicable for gold and silver ores at 5%.**

- A serious identified shortcoming was **the ambiguity and incompleteness of the Mining Act and related legal regulations, as well as their terminological inconsistency and discrepancy, like in the designation of mineral species.** In specific cases, this may lead to different interpretations of the Law in the decisions of the authorities concerned. On the basis of the above, it was not possible to **unequivocally confirm or refute the validity of the complaint in the part concerning the correctness of the applied rate of compensation for extracted minerals.**

The overview of the above findings documents the necessity and significance of the SAO SR recommendation that, in the interest of preserving non-renewable mineral resources for future generations, legislative changes be made to define priorities for mineral protection, its modern valuation or reassessment of payments for its use.

4.4.2 Antidumping and countervailing duty needs better information support

Despite the efforts of the world community to liberalise trade relations, which would ensure the duty-free movement of goods and services, various forms of protection of the domestic market against cheaper foreign competitors still exist and are used. **One such form is anti-dumping and countervailing duty**, which are levied independently of other duties, taxes or other charges. While the anti-dumping duty serves to protect the market against abnormally low prices of products imported to EU, the purpose of the countervailing duty is to offset the subsidy received by the producer of the goods either directly or indirectly from the State. One product may be subject to both anti-dumping and countervailing duties.

The SAO SR performed an audit of the procedure of the customs authorities in the application of anti-dumping and countervailing duties with an emphasis on the timely payment of traditional own dues to EU budget - (KA 033/2019). The value of the collected anti-dumping and countervailing duty in the current period is not high - in recent years approx. EUR 2 mil. **However, it is important that the FA follows all the procedures leading to their correct collection, assessment, timely payment and the transfer of its 80% part into the EU budget - the so-called payment of traditional own resources.** In case

¹⁵ The classification of minerals into reserved and non-reserved is defined by the Mining Act in Art 3, reserved are e.g., as well as minerals from which metals can be produced industrially.

¹⁶ The summary records of reserves of exclusive deposits and the balance of reserves of minerals (in accordance with the Mining Act) are kept by the MEn SR.

¹⁷ Off-balance sheet stocks are currently unusable, but their usability is expected in the future, given the expected technical, technological and economic developments.

of failure, resp. incorrect payments, the EU threatens sanctions and interest on arrears borne by the State budget. The aim of the audit was **to comprehensively verify (on a representative sample of decisions in the customs procedure) whether the FA of the Slovak Republic complied with valid European and national legislation in applying anti-dumping and countervailing duties and whether it paid traditional own resources to the EU budget in time.**

The audit revealed **three systemic errors concerning the financial management information system in the area of customs supervision.** The first is an error in a customs declaration entered in the financial management information system where the basis for imposing the anti-dumping and countervailing duties was missing or incorrect. The second error was the lack of a basis for assessing the import payment on the VAT security at the provisional anti-dumping duty and also the incorrectly stated rate for this security. In the third systemic error, the audit drew attention to a discrepancy between the printed form of the decision in the customs procedure and the electronic form of the customs declaration, when the European Community's TARIC integrated tariff for the description of goods was missing in electronic form. These errors meant a violation of applicable national legislation, but did not affect the fulfilment of the SR obligations to the EU budget, as the mandatory amount was paid.

Based on the recommendations by SAO SR, the FA SR takes appropriate measures to eliminate the identified shortcomings in its own information system.

4.4.3 The system of energy security in emergency oil stocks is robust and expensive

The current trend of organising world production based on the principle "just in time", significantly reduces the cost of storing the necessary inputs. On the other hand, various international or local conflicts, disasters, and wars make countries vulnerable because they threaten the movement of raw materials and other inputs for production or consumption. The current pandemic is an example. Therefore, it is extremely important for the country to have a well-established policy of strategic security for vital products. One of them is oil and oil products, for which emergency stocks and material reserves are created for country security. The SR is also building and maintaining stocks of this commodity to protect its basic security interests. In the spirit of European legislation, it is intended to safeguard emergency stocks, the amount of which corresponds to at least 90 days of average daily net imports, and it also fulfils this obligation.

The audit (KA 001/2020) focused on how the policy of securing emergency stocks of crude oil and petroleum products is set up and how it is implemented through the State Material Reserves Administration (further SMRA) and the Agency for Petroleum and Petroleum Products Emergency Stocks. The SMRA is the policy sponsor and the State supervisory body in the given area. Until 2013, the emergency oil reserves were owned by the State and the SMRA had full responsibility for them. After this year, the Agency became the owner of the stocks and is responsible for securing these stocks.

The result of the audit were several findings that have a greater or lesser impact on the policy, its performance, control, but also financial complexity.

State Material Reserves Administration

- As the policy sponsor, it **has not developed strategic documents** that would identify and address the medium-term objectives of the policy. Their elaboration would, inter alia, eliminate "ad hoc" decisions, which in most cases are made in a time constraint, leading to the risk of uneconomical and inefficient use of public funds. **The SAO SR recommended that the SMRA – as the bearer of the policy of emergency stocks of crude oil and petroleum products, enter more actively into the process of creating, implementing and evaluating this public policy, and develop a strategic planning, conceptual document that would set and address medium-term goals and visions of this policy.**
- The SR Government has not approved emergency and contingency plans** applicable from the Law for the sponsor and which would regulate the procedures in the event of an oil emergency. There is a risk of insufficiently fast and effective response to the need to release emergency stocks. **The SAO SR recommended to the SMRA to submit proposals for an emergency plan to the SR Government and, after its approval, to draw up a contingency plan.**
- As a body for State supervision over emergency stocks, the SMRA did not have standardised **control procedures in place.** It implemented them operationally, without proper planning and without performing a risk analysis. Material reserves did not perform on-site inspections – physical inspection of the quantity, quality and availability of oil stocks and stocks in the form of tickets. The Agency did not carry out a physical check of tickets either. The SAO SR therefore draws attention to the possible risk **that emergency stocks did not have to be realistically secured in the amount documented by recognized warehouse keepers.** In the audited period, the SMRA did not in any case perform an inspection of the Agency for Emergency Stocks of Petroleum and

Petroleum Products as the executive body for securing emergency stocks in the SE. **The SAO SR therefore recommends the SMRA ensure the introduction of a new system of control performance so as to eliminate risks and at the same time eliminate shortcomings associated with the performance of its inspection activities to date.**

Emergency stocks system transformation

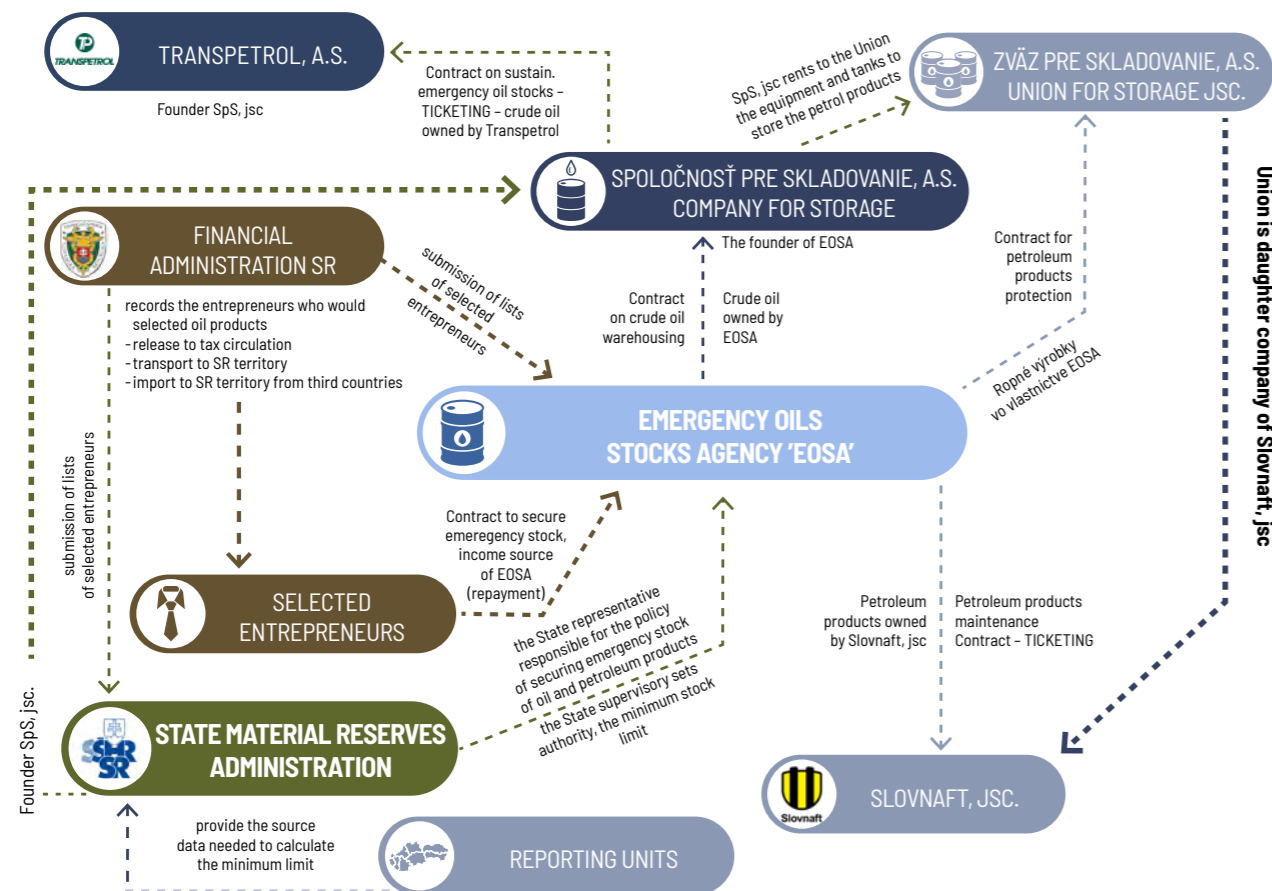
- The transformation without sufficient analysis of consequences** – in 2013, Act 218/2013 Coll. on Emergency Stocks of Crude Oil and Petroleum Products was made possible by the transformation of State ownership of emergency stocks into the Agency as a non-profit organisation. The audit showed that this step was **not preceded by any expert analyses that would sufficiently demonstrate the benefits of this transformation in the form of cost reduction, simplification of the organisation, the possibility of reducing Government debt, etc.** There are currently three approaches in the EU to maintaining the required level of emergency stocks of oil and petroleum products. These are the State model (like in the Czech Republic), the sectoral model (like in Greece) and the agency model (like in Germany and Slovakia). Among European countries, there are also those that have chosen a combination of the above approaches, such as State-sectoral in Ireland or agency-sectoral in Austria. Each of these models brings positives, but also negatives. The conclusions of the audit draw attention to several problems and risks that the agency model brings and are presented in the following.
- The fiscal goals of the transformation were not met** – in the given period, the MF SR considered the value of emergency stocks to be dead funds that could be used to consolidate public finances and meet the EU requirement to keep the public finance deficit below 3% of GDP in the relevant calendar year, e. g., in 2013. **For this reason, it was decided to sell emergency stocks and this extraordinary Government revenue of the State budget in the amount of EUR 465 mil should help meet the required criteria.** Therefore, the legislation was amended in rapid succession over several months – a new act was adopted, and **two organisations were established – Spoločnosť pre skladovanie, a. s. (further the Storage Company jsc), and Agentúra (further the Agency).** Subsequently, the SMRA sold emergency stocks to the Agency. **In December 2013, the Agency took a commercial loan from a consortium of banks in the amount of EUR 520 mil.** It was used to purchase emergency supplies and operate it. The Statistical Office SR classified the Agency outside the general public administration as a

non-financial corporation, but by a Eurostat decision the Agency's liability was reported as part of the Maastricht debt as at 31 December 2013, thus failing to fulfil the Ministry's original intention. **The SAO SR points out the fact that Eurostat warned the Slovak Republic in advance that the sale of emergency stocks should not be recorded as Government revenue, which was known before the Agency received a commercial loan.** Eurostat rules stipulate that public units set up for the purpose of managing emergency stocks are classified in the general public administration. **Based on the opinion by Eurostat, the Agency was included in the public administration and its entire economy entered the data for the calculation of the deficit and debt of the Slovak Republic according to the Maastricht criteria. Subsequently, the SR Government approved the provision of repayable financial assistance in the amount of EUR 520 mil to repay the loan to banks.**

- Significant costs of transformation** – expenditure related to the establishment and operation of the Agency and the restructuring of its commercial loan for 2013-2019 amounted to almost EUR 191 mil. The decisive part of these expenditures would most likely not have been incurred if the administration had not been changed from a State model to an agency model. The SAO SR also considers necessary to point out that **the expenditures had an impact on the amount of remuneration for the service that the entrepreneurs selected under the Emergency Supplies Act were obliged to pay to the Agency. Ultimately, the payments were passed on to the citizens, who paid it in the prices of petroleum products.**
- More players, more complex processes** – the transformation brought an organisationally demanding agency model with a number of relationships that were simpler in the original form of securing supplies of oil and petroleum products. The diagram below in suggests the processes map. The transition to the agency model created two new actors in the public policy of securing emergency oil stocks – the Agency and the State Storage Company jsc, whose main business activity is the storage of crude oil and petroleum products, as well as the lease of storage facilities suitable for the storage of crude oil and petroleum products. The whole system is supplemented by the State manager – SMRA. **Compared to the State model, the system set up in this way marks the control as less clear and more complex.** The interrelationships of all actors, including recognised warehouse keepers, are interconnected by complex contractual, financial and property relationships, which increases the risk of **non-transparency and unreliability of the system itself.**

¹⁸ Tickets – The Emergency Stocks of Petroleum and Petroleum Products Act allowed a certain part of emergency stocks to also be owned by an entrepreneur (recognised warehouse), who was obliged to provide them to the Agency in the event of a declaration of a state of oil emergency. This part of the stocks was referred to as emergency stocks, which were maintained in the form of "tickets".

Picture 3: Processes map of the actors in the policy for emergency crude oil and petroleum products



Most of the State's voting rights may not be enough to safeguard the public interest. The private company Agency is responsible for managing emergency oil stocks. It takes care of the creation and maintenance of emergency stocks of crude oil and petroleum products in Slovakia, including their financing. The decisive influence in it is the State trading company - the Storage Company, jsc which has 70% of the voting rights. The remaining 30% was acquired by selected entrepreneurs associated in the Agency. However, despite the majority of votes at the general meeting, the State has limited direct decision-making power, for example in determining the amount of remuneration for service, when the members for selected entrepreneurs of the Agency had a "right of veto". In the case of blocking the increase in the amount of remuneration for the service by selected entrepreneurs and, at the same time in the event of a possible request of the system to increase financial income, co-financing from other State resources would have to enter the equation. **Failure to preserve the decision-making power of the State in the case of approving the amount of remuneration for the service risks that the Agency's expenses may not be fully covered.**

In the opinion of the SAO SR - this case also shows how it is necessary and important to analyse the benefits and costs associated with similar transformations. It is particularly important to accept the views of the EU institutions, in this case Eurostat, in transactions affecting public finances. For a short time, the transformation may have achieved the set macroeconomic objective, but ultimately brought about a more robust system with additional costs, which are ultimately reflected in the prices of oil and oil products sold.

4.4.4 Pandemic asked for changes in emergency system of collective protection of health

The history of mankind knows periods when the infectious disease grew into a pandemic of regions and entire continents with huge losses of human lives. For many infectious diseases known so far, science has provided a solution in the form of vaccines and vaccination of a critical mass of the population. The vaccination has become the most effective intervention that affects the incidence of infectious diseases and prevents their recurrence. In recent decades, however, the anti-vaccination movement has been growing around the world, and many of its ideas have spread to Slovakia.

In 2019, the SAO SR, together with the highest audit authorities of Hungary, Poland and Belarus, agreed to perform and audit with the same focus - KA 030/2020. Its main objective was to find how collective protection of the population was ensured in individual countries by 2020, how measures are taken in connection with the reduction of compulsory vaccination, and what the availability of vaccines is, and finally, compare these systems with each other. The Slovak audit was performed in 2020 in the Public Health Office of the Slovak Republic (further PHO SR), the sponsor responsible for the prevention and control of communicable diseases in 2015-2020.

The audit came to the following conclusions:

- **Sufficient collective immunity at the national level was not achieved in all communicable diseases 2015 - 2019.** In SR, vaccination against ten types of communicable diseases (diphtheria, tetanus, whooping cough, transmissible poliomyelitis, viral hepatitis B, invasive homophile infections and pneumococcal invasive diseases, measles, mumps and rubella) is mandatory at the intervals specified by the vaccine calendar drawn up for each year. **PHO SR is the body**

responsible for vaccination policy. The scope of activities in this area is in particular the planning, coordination and determination of the scope and vaccination schemes for the immunization programme. The aim of compulsory vaccination is **to achieve 95% vaccination of the population, the so-called collective immunity.** When vaccination drops below 95%, preconditions are beginning created for the spread of the disease in the unvaccinated population; epidemics occur below the 90% vaccination limit. The place where a group of unvaccinated and therefore unprotected persons accumulate is called "vaccination gaps".

- **Sufficient collective immunity at the national level was achieved in 2015-2019 in diphtheria, tetanus, pertussis, viral hepatitis B, haemophilic infections, polio and invasive pneumococcal diseases. However, it has not always been achieved with vaccination against mumps, rubella and measles.** The problem with achieving collective immunity in 2015 - 2017 was already in two-year-old children (see table) in the case of basic vaccination against mumps, rubella and measles. In the following years, the situation improved slightly, the national average exceeded 95%.

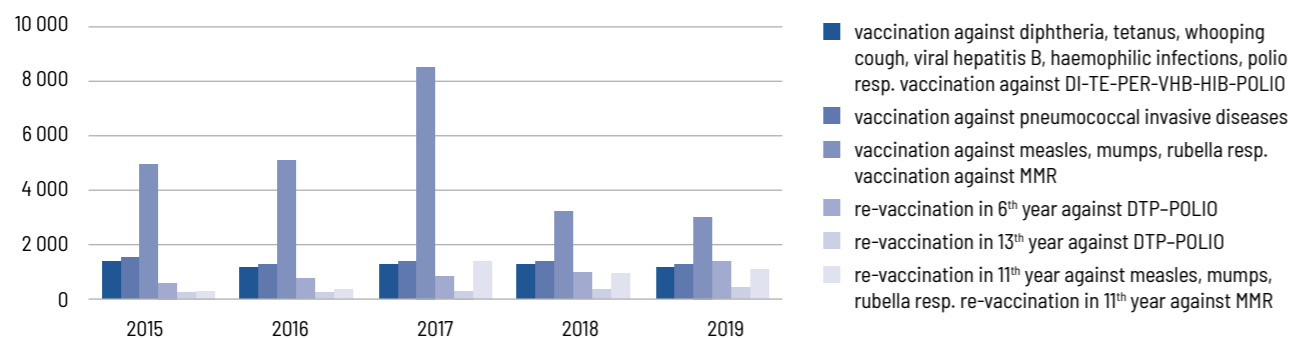
Table 5: accination of two-year-old children within regular compulsory vaccination in SR (in%)

disease	year				
	2015	2016	2017	2018	2019
diphtheria, tetanus, whooping cough, viral hepatitis B, haemophilic infections, polio	96,0	96,4	96,4	96,5	96,7
pneumococcal invasive diseases	95,7	96,1	96,2	96,2	96,5
measles, mumps, rubella	93,9	94,5	94,8	95,2	95,7

Source: PHA SR

- **The absence of a central register of vaccinated persons.** The vaccination of Slovak citizens is recorded in the patient's medical records. Data on vaccination are summarized by the PHO SR every year as of 31 August as part of the administrative control of vaccination at the national, regional and district levels. **The SAO SR draws attention to the fact that such a method of obtaining data on vaccination is not only administratively and time-consuming, but, as in other cases, such a method of data processing involves the risk of incompleteness and inaccuracy.** Building a system of a central register of vaccinated persons is being prepared within the framework of the Operational Programme Effective Public Administration and is also one of the tasks of the action plan of the National Plan for the Control of Infectious Diseases. The implementation of this system should start from 2022.
- **The vaccination activities are not coordinated and their success is not measured.** Recently, the number of **refusals for compulsory vaccination** by parents has been increasing - see graph 5. Rejection as well as subsequent misdemeanour proceedings are solved by the regional PHO SR, which are independent legal entities. In this context, **the SAO SR points out the position and limited possibilities of PHO SR operation towards regional public health authorities.** An example is the procedure for refusing vaccination, which is the responsibility of regional PHOs. Their procedure is not coordinated by the PHO SR. Individual regional authorities have different success results, and examples of good practice are not evaluated in dealing with refusals. **The effectiveness of individual vaccination-raising activities related to vaccination refusal is not evaluated at central management level.**

Graph 10: Vaccination refusals according to individual diseases in 2015 – 2019



Source: administrative controls of vaccinations in 2015 – 2019

• **Monitoring the current availability of vaccines is missing and outages of vaccines are not isolated.**

In 2005, there was a change in the procurement of vaccines from PHO SR to pharmacies, which order vaccines based on the needs by vaccinating doctors. In addition to certain advantages, this change has caused problems in the smooth satisfaction of vaccination needs. With the decentralised way of obtaining vaccines, the biggest problem is their outages. Systematic and long-term consumption planning is needed in the process of obtaining vaccines, but this is lacking in a decentralised system. The availability of vaccines at this time cannot be determined. **There is no online register that would allow monitoring or control the number of vaccines currently available in the SR.** It was found by the audit, that the problem with vaccine failures has long been pointed out by the Immunization Working Group, an advisory body of PHO SR for immunization issues, as well as the Advisory Board of the Chief Hygienist of the Slovak Republic for Epidemiology, although PHO SR does not have this agenda in competence. MH SR solves the situation in the case of a vaccine's shortage negotiating with the registration holders about the supply possibility.

• **Determining the population resistance to communicable diseases – population immunological surveys – does not have a time interval for implementation set by legislation.** PHO SR is responsible for determining the state of resistance of the population against communicable diseases by conducting immunological surveys. In 2018, the last survey on the state of resistance of the population to communicable diseases was performed for the following reasons:

- a decrease in vaccination coverage of the child population in SR in recent years;
- a long interval since the last immunological surveys performed (1997 and 2002),
- a change of vaccination schedules and use of new vaccines;
- a refusal of compulsory vaccination and the growth of unvaccinated children, and

- epidemic of viral hepatitis A in the Bratislava region, worsened epidemiological situation in the occurrence of measles in Europe as well as in the world.

The implementation of the immunological review is important from a professional point to determine other strategy of compulsory vaccination in SR. Based on its results, the vaccination calendar was modified in 2019. The decree MH SR no. 585/2008 Coll. **does not regulate the time intervals** in which the immunological survey should be performed. **The SAO SR recommended the MH SR consider the legislative anchor for time intervals for the implementation of regular serological surveys focused on diseases preventable by vaccination and monitoring of the immunity status of the population, also with regard to other serious infectious diseases. Funds for the implementation of the immunological review should also be linked to time intervals, which is not ensured in the current practice.**

The COVID 19 pandemic in many ways tests the protection system of the population against infectious diseases. The vaccination system, which has so far functioned relatively well and stably in Slovakia, is an important part of the protection of the public's health, but the audit has not revealed its serious shortcomings. In the conditions of a pandemic, its weaknesses have become apparent - it is not sufficiently set for a pandemic!

However, the collective health system is only one part of public health policy. The pandemic revealed a number of other problems – systemic, competent, legislative, insufficient information support of public health, which in the opinion of the SAO SR will require a thorough revision of the strategy of this policy, its objectives, resources and enforcement tools. The conclusions from the SAO SR audit performed in the hospital health care system, those related to the performance of the transferred health care services to the local Government, the eHealth system, the residency programme and others, may contribute to this revision.

5 OTHER OFFICE ACTIVITIES

5.1 SAO SR analytical activities

The analytical activity plays an increasingly important role in fulfilling the SAO SR mission. The Strategy and Analysis Department has a decisive place in this activity. In addition to participation in the planning and performance of audit activities, it significantly participates in the elaboration of the SAO SR position to the State final account and SB.

A special analytical activity is the creation of analyses and analytical comments to various important social topics. They serve as separate outputs of the Office activities. Each analysis or analytical commentary is subject to the review by external experts. In 2020, five such analytical documents were published containing findings about the problem and recommendations for improving the situation. The analytical comments focused on the following issues.

- **Count on a (poor) textbook (Textbooks in primary schools)**

The results of international surveys OECD - TALIS, signal long-term problems with the provision and suitability

of primary school (further PS) textbooks, which was confirmed by the results from the SAO SR questionnaire - **in almost half of PS teachers were dissatisfied with the suitability and quality of textbooks provided by the Ministry.** Approximately the same number of schools have not improved over the last few years. In addition, MESRS SR has long insufficiently covered the requirements of schools for textbooks. During the analysed period (2014 - 2019), the number of textbooks supplied to schools was lower each year than the number of textbooks ordered by schools.

The most problematic textbooks at the time of the survey were mathematics textbooks, across all grades in PS. The fact MESRS SR distributed mathematics textbooks to schools for many years, which were very negatively evaluated by the vast majority of schools, is considered by the SAO SR a serious finding with a society-wide negative impact. **Especially in the case of the second stage, textbooks of the Slovak language and literature were also described as problematic.** The teachers were dissatisfied with the suitability and quality of the textbooks provided by the Ministry, even in the case of informatics, geography or other subjects.

Therefore, the SAO SR welcomed the decision of the MESRS SR to expand the offer of textbooks from the 2020/2021 school year provided free of charge to PS or for the purchase for which the Ministry provides funds. However, this step should have taken place earlier. Three-quarters of schools said in the survey **that the market offered more suitable and better alternatives in the case of particularly problematic textbooks provided by the Ministry.** Approximately the same part of schools considered the model of open market with textbooks to be the most suitable system to secure the textbooks, while a number of respondents had impression of a model where only the offer of textbooks could be expanded that can ordered free of charge through the Editorial Portal of the Ministry.

- **Could be unpreparedness the cause for substantial price differences? (A medical devices prices analysis)**

On 11 March 2020, the World Health Organisation (WHO) declared a global pandemic in connection with the spread of COVID-19. Following, the Government SR declared an extraordinary situation in the country from 12 March 2020. With the onset of the first wave of the pandemic in Slovakia, gradual media coverage of possible non-transparency of purchases of medical devices (further MD) by the State or other public entities, the SAO SR proceeded to the analysis of the development and comparison of purchase prices of individual types of MD in May 2020. The SAO SR examined how the SR was prepared for an emergency situation, mainly from the point of view MD emergency stocks, by which the Government and relevant State institutions can minimize the risks associated with uncontrolled threats to life and health.

The analysis by the SAO SR identified several significant risks. The competent authorities in SR, which are part of the crisis management, including the State Material Reserves Administration (further SMRA), were not sufficiently prepared for a pandemic situation of the type represented by COVID-19, despite the risks of global epidemiological diseases warned the WHO in the past. **The SMRA purchases also by selected local authorities and cities indicated a disproportionate increase in the price of several MDs (especially surgical drapes / masks, shoe covers, partly protective suits, gloves, goggles).** Key findings include, for example, the fact that **from 2008 to 2020, despite the defined threats to the epidemiological development of diseases in the world, the need for any crisis management authority in SR to supplement emergency supplies with selected MDs was not identified.** Other findings point to the absence of updating the medical materials in accordance with the Civil Protection Act, inconsistencies of information from the website of the SMRA and the Government SR resolution no. 96/2020.

Based on the findings by the SAO SR, it recommends to take several steps in the given area. The coordination of the nationwide database of MD within individual subjects of crisis management appears to be **crucial in checking the functionality of an efficient, transparent and economical AAD system** (Accessibility in the system, Availability in reserves, Distribution in crisis) and **checking purchases of MD in selected HTUs and cities** in times of emergency.

The SAO SR pointed out **that the protection of the population before and during a pandemic should be a priority of every Government in the Slovak Republic. The principles of transparency and economy must be observed not only in everyday life, but also in times of emergencies, as this is a way of strengthening public confidence in State and public institutions.**

- **Weak electronic communication and delayed business register (Status and Electronisation of the judiciary)**

In 2020, the SAO SR prepared a commentary focused on electronisation in the judiciary. According to international evaluations, the issue of the judiciary is important due to insufficient confidence in the independence of courts and judges, insufficient confidence in the judiciary, or poor evaluation of the possibility to enforce contracts and conduct insolvency proceedings. Informatisation in the judiciary can improve the identified insufficient international evaluations, but the SAO SR also focused on this topic due to significant corrections in the previous EU programming period.

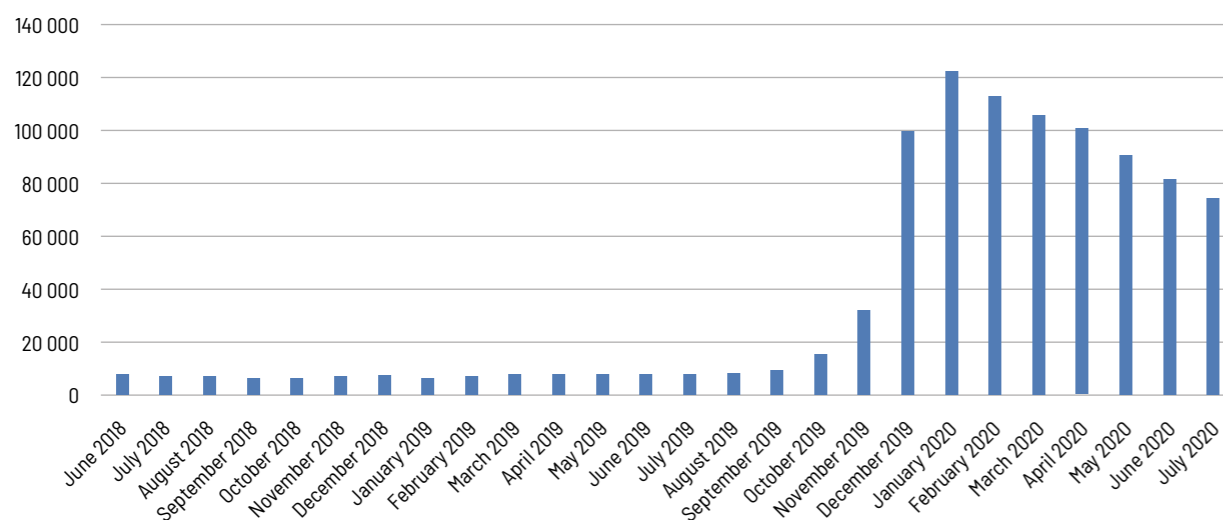
Although the Ministry of Justice of the Slovak Republic implemented reforms in the previous period, which concerned the electronisation of relations, i.e., introduced electronic delivery, an electronic court file or a register of clauses, **but the quality of these reforms is insufficient for the State and users due to their incompleteness, unavailability or quality of electronic services.** An example of one of the many shortcomings identified is the deadline for reservation service in physical access to the file. If the user wants to book an appointment electronically, the portal informs that the application will still be assessed by a court employee, which will take several days. For this reason, it is more efficient for users to use a telephone reservation at the information centre. **Modifying the service in question to an online calendar, which would allow a reservation without further assessment of the reservation by a court employee, would reduce the occupancy of the information centre and increase the efficiency of this service.** The commentary also formulates recommendations for solving other shortcomings in informatisation of the judiciary.

The long-awaited improvement in the services of the Business Register is still being postponed due to the extension of public procurement. Although the Ministry of Justice prepared a roadmap of steps for changes in the

functioning of the Business Register, the set deadlines for the deployment of its new version, expansion of registrars or shortening the time of registration in the Business Register were not met. By failing to address the business register

information system, the registration of end-user benefits overburdened the courts. **The process of registering end users of benefits has not been mastered and is another example of bad practice in informatisation of the society.**

Graph č. 11: Number of unsettled cases in the Business Register



Source: Analytical unit of the Ministry of Justice SR

• **Practical, generally... still not enough (Has the residential programme reversed the alarming state of the number and average age of GPs?)**

One of the risks that has long been pointed out in connection with Slovak healthcare is the threat to the availability of general outpatient care due to the low number and high age of general practitioners (further also GP). One of the tools to solve this problem was the establishment of the so-called Residential Programme, resp. Residential Study (further RP / RS^o). Therefore, the SAO SR performed an analysis of available data about the development of the number and age of general practitioners, as well as on the RP / RS itself. This data also served as input for a separate audit of the Office.

The analysis of available data confirmed that Slovakia has a significantly lower number of general practitioners for adults compared to EU countries per 100 000 inhabitants. A positive turnaround in development occurred in 2019, but the shortage of doctors has not yet solved it. **The number of general practitioners for children and adolescents in Slovakia per 100 000 inhabitants is higher comparing to the EU countries average, but the development in the Slovak Republic is not favourable.** While this number was rising in EU countries, it was falling in Slovakia. According to data from the National Centre for Health Information (NCHI), in 2019 the average age of general practitioners for adults was 54.1 years and the average age of general practitioners for children and adolescents was 61.7 years. However, analysts warned that data from the National

Register of Healthcare Professionals, provided by the NCHI, may not be reliable.

PP / RS is a set of several measures that should motivate young doctors to specialize in general medicine. The programme has been operating since 2014. Until 2019, it required expenditures in the amount of EUR 22.2 mil. It included 435 residential doctors and had 162 graduates specialising in general medicine for adults and children and adolescents. For both specialisations, the programme has helped to halt the decline in the number of GPs, but its impact is still relatively small.

The residential programme has only halted the negative trend in the number of GPs, but no significant improvement has yet taken place. Based on the conclusions from its own analytical activities, the Office plans further audit activities aimed at evaluating both the system settings in the residential programme and the reliability of data from the National Register of Healthcare Professionals, which is managed by the NCHI.

• **Possible savings on flood protection measures (Analysis of expenditures used to implement flood prevention measures)**

In 2020, the SAO SR performed an analysis of expenditures used for the implementation of preventive measures for flood protection. It followed the audit performed in 2018 - 2019 in Slovenský vodohospodársky podnik, š.p.(Slovak Water Management Company, State enterprise, further

SWMC) and in selected cities and municipalities, focused on planning and implementation processes related to flood prevention measures.

The aim of the analysis was to identify **significant differences in unit prices of the same construction items, as well as to define the differences when comparing with identical indicative guide prices** (their maximal market price equivalent) within all analysed flood prevention measures. The intention was also to verify the cost-effectiveness of the funds use for the purpose of ensuring the highest possible value for money. The analysis was performed on a sample of construction items that came from the budget documentation of projects from the Operational Programme Environment in 2007-2013 and the Operational Programme Environmental Quality 2014-2020. In 2007-2020, almost EUR 700 mil were invested into the flood protection measures.

In the case of construction items that had a unit price higher than their indicative guide prices, **approximately EUR 6.3 mil** were to be saved. These were 286 items purchased by 59 entities in the total amount of approx. EUR 14.85 mil. If all 286 construction items were procured at indicative guide prices, only 57% of this amount (EUR 8.51 million) would be spent on the purchase of these items. The largest price differences between the unit and the average unit price of construction items ranged from -99.9% to +1,450.7%. The highest frequency of occurrence of such construction items was identified in the subjects of **SVP (Slovak Waterways Company - 70!), municipality Teplička nad Váhom (10), Military Forests and Assets of SR State enterprise (9)**. Construction items with increased unit prices compared to indicative guide prices by more than 20%, whose interval of differences ranged from **-99% to +2 768%** were demonstrated in 286 construction items in 59 entities. Most of such construction items **(75!) were procured by Slovak Waterways Company, the municipalities of Vydrník, Teplička nad Váhom, Šarišské Jastrabie and Svätuše (10) and the municipality of Slovinky (9)**.

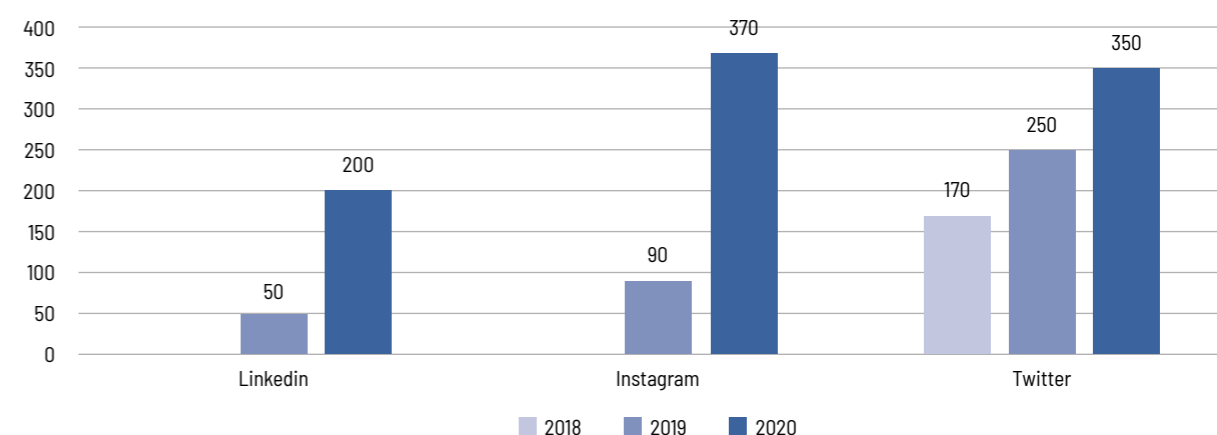
As part of the analysis, reserves were identified in achieving economy in the use of public funds for the implementation of preventive measures for flood protection. **The differences between the unit prices of selected construction items used to implement flood prevention measures and their indicative guide prices (so-called reasonable market prices) were often significant and in some cases were more than 10 times higher.** The analysis also includes recommendations that could potentially contribute to significant savings in public finances in the area of budget preparation of construction work cost items, as well as their public procurement. Performing analyses with the aim of more efficient purchases is also conditional to ensure greater openness to public scrutiny.

5.2 Communication - the road to knowledge and trust

The effort to get **to know its special position** in the society with a wide range of professional and lay people, but also **the effort to strengthen the credibility** of the presented work, is an extremely important aspect of the SAO SR work. The Office builds its credibility primarily through a professional and expert approach to audit, a way of communication with audited entities, but also with other institutions or citizens.

There are many ways in which the audit activity and its results are as close as possible to the public. The Office is trying to use them as much as possible. The use of social networks (YouTube, Facebook, Twitter, LinkedIn, and Instagram) is an important communication tool. The adoption of the new Design Manual, which defines the principles of communication by the SAO SR in social networks, contributed to the presentation of the results of the Office activities.

Graph 12: Trend in the number of supporters of SAO SR communication activities in three of social networks

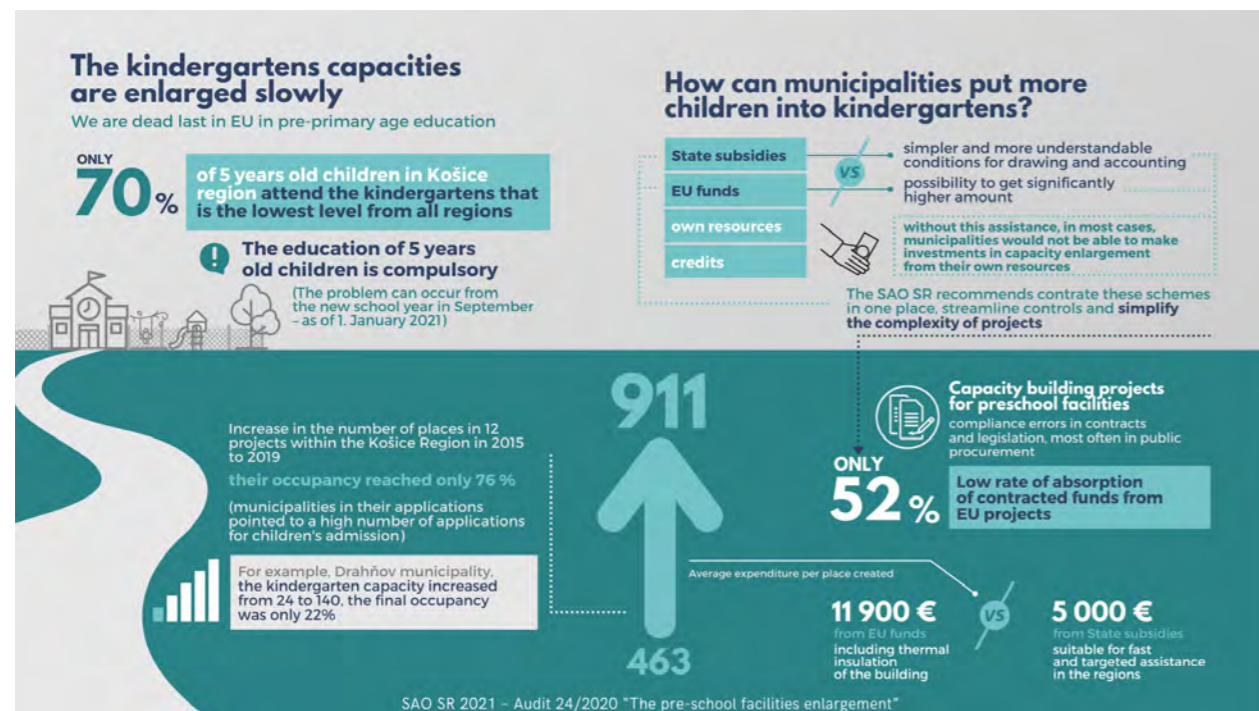


The SAO SR offers information on its own website (www.nku.gov.sk). **In 2020, it was visited by 70% more parties than in 2019**, while the number of clicks per page exceeded **3.8 million** and the volume of downloaded information was almost 320 GB.

Reports about the results of audit activities are provided to citizens not only in writing, but for the third year in a row

the Office also provides audio-reports and thematic videos for selected communication activities - **contributions linked to infographics**. It is assumed that in such a form even an uninterested citizen will understand the intention of the audit and its results. An example of such a form of presentation of an audit devoted to the issue of expanding the capacity of preschool facilities in the Košice self-governing region, is shown in the attached picture.

Picture 4: SAO SR uses more and more the digital communication tool – infographics



The presentation of the SAO SR appeared in the media almost three thousand times during 2020, with 2/3 of the information being published on news web portals and, for example, 10% of these reports being brought to its listeners and viewers by public radio and television (RTVS).

Last year, the SAO SR also presented itself to the professional and lay public in a special way. As part of the development and promotion of the Office analytical capacities, we participated in the international EUROSAL Hackathon 2020 event in the Czech Republic. The five-member team intended to create a web-based interactive presentation of audit findings and information about education, health care and other details about municipalities, auditable entities in the municipality. **This project was successfully used and the web application MuMap (Municipality Map) was created, which is further developed.**

Thanks to the information provided to the general public by the modern MuMap application published on the Office official website (www.nku.gov.sk), **every citizen can become a "comptroller of the municipality or city"** where he/she lives. The digital platform offers to the public

information about the management of local governments, the use of EU financial assistance, the number of primary schools and the results of the audit activities by the SAO SR. The application gives citizens a tool in their own hands, thanks to which they can become an active part of public life at the communal level. It is also a step thanks to which events in local self-government can be under better scrutiny not only by the SAO SR, local deputies or municipal comptrollers, but especially citizens who live in these cities and municipalities and have the right to know how the elected representatives decide on public finances or self-government property.

The SAO SR's communication with the public is **not one-way only**. When communicating with the Office, the public also uses the opportunities provided by the Free Access to Information Act. In 2020, the Office registered 46 applications referring to **free access to information**, while in only 6 cases the Office had to issue a negative position. Citizens can communicate with the SAO SR not only by regular mail, but also electronically. In 2020, the Office registered more than 8,500 records in its registry. Of this number, almost a fifth of documents were

delivered to the SAO SR by e-mail, via the central public administration portal or the official website.

For the fifth year in a row, the SAO SR records an increase in **suggestions and complaints from citizens**. Their number increased by 5% year-on-year and the number of letters and e-mails received from the public is approaching eight hundred. This development testifies to the growing confidence of the population in the national authority for the area of external control. In the submissions, the public points out, among other things, the inefficient or illegal use of funds and property by Ministries, State-owned enterprises, but also the non-transparent decision-making of public officials at the local government level. Almost half of the initiatives in 2020 were related to the decision-making by the Mayor.

5.3 International cooperation – room for inspiration

The Office's international activities in 2020 were significantly affected by the pandemic of the new coronavirus Covid-19. Despite various limitations, it can be stated that even the limited number of receptions and postings last year was beneficial for the Office. An important part of international activities was the meeting of the President of the SAO SR with the President of the Supreme Audit Institution of the Russian Federation, who is also the President of INTOSAI, or a bilateral meeting with the President of Czech auditors, who will become the President of the EUROSAL.

Most of the Office's international activities in 2020 took place in the form of online meetings and video conferences. From April to December 2020, a total of 57 videoconferences were organised by control and audit institutions from Europe as well as from all over the world, of which 41 were attended by the Office's auditors or analysts. The SAO SR holds an important position within the global association INTOSAI - it is the chair of the Subcommittee for Peer Review within the Capacity Building Committee. The Subcommittee implements activities that, through education and evaluation, contribute to increase the quality of control activities in all its areas.

In the last year, the Office played an important role as a member of the global team of experts in the INTOSAI Development Initiative (IDI) to design, develop and provide training content for UN Sustainable Development Goals (SDGs) and to support SAI teams performing these audits. A representative of the Office, in cooperation with the said team, provided online training for mentors, participated in the design and development of digital training material and also in eLearning training of auditors in several regions of the world.

Even at the time of the restricted personal contacts, the cooperation of the SAO SR with partner audit authorities was not interrupted. In the challenging year of 2020, its auditors participated in four international audits. Such form of international cooperation is extremely necessary and beneficial for increasing the level of audit quality, its forms and focus. The results of international audits have also wider importance, as they provide information enabling the results achieved to be compared between countries.

ANNEXES

Annex 1: Overview of audits included into the Report about the audit activities of the SAO SR in 2020

020/2019

The system of direct support

032/2019

The system of collection of insurance premiums of the social insurance and old-age pension savings

033/2019

The application of anti-dumping and countervailing duty

035/2019

The automated stationary detection system for early detection of forest fires

038/2019

The audit of contracts and their fulfilment (Mochovce Nuclear Plant)

001/2020

The policies of securing emergency stocks of crude oil and petroleum products

002/2020

The provision of Slovenská pošta (Slovak Post) services

003/2020

The measures for reducing the administrative burden in the implementation of the official agenda of self-government

004/2020

The quality of subterranean drinking water sources monitoring

006/2020

HTU - the use of financial means and assets

007/2020

The management of public funds and assets in the municipality of Mútne

009/2020

The transfers of immovable assets in municipalities

010/2020

The effectiveness and efficiency of process in management and control of landfills and waste tips

013/2020

The support for the least developed districts through the provision of a regional contribution

014/2020

The protection and use of selected mineral wealth

015/2020

The local government indebtedness and budgetary responsibility

017/2020

Home care services

018/2020

Community centres

019/2020

The evaluation of the financial management of the SB Chapter Office of the Constitutional Court SR

022/2020

The reporting of assets and liabilities in the individual financial statements of central State administration bodies

023/2020

Observing the legal deadlines for excess VAT deduction refunds

024/2020

The pre-school facilities enlargement

026/2020

The capital transfers and obligations of the founder and its contributory organisation

027/2020

The administration of State material reserves of the Slovak Republic in times of emergency

028/2020

The Medium-Term Budget Frameworks - International audit by 7 SAIs (Finland, France, the Netherlands, Portugal, Slovakia, Sweden and Italy)

029/2020

The management of public funds in selected subjects from public administration

030/2020

The population protection against infectious diseases

031/2020

The administration of public funds and State assets by the Ministry of Interior SR

032/2020

The internal control system of expenditure for sports in the SB Chapter of MESRS SR

033/2020

The plastic waste

034/2020

The information system of crisis management

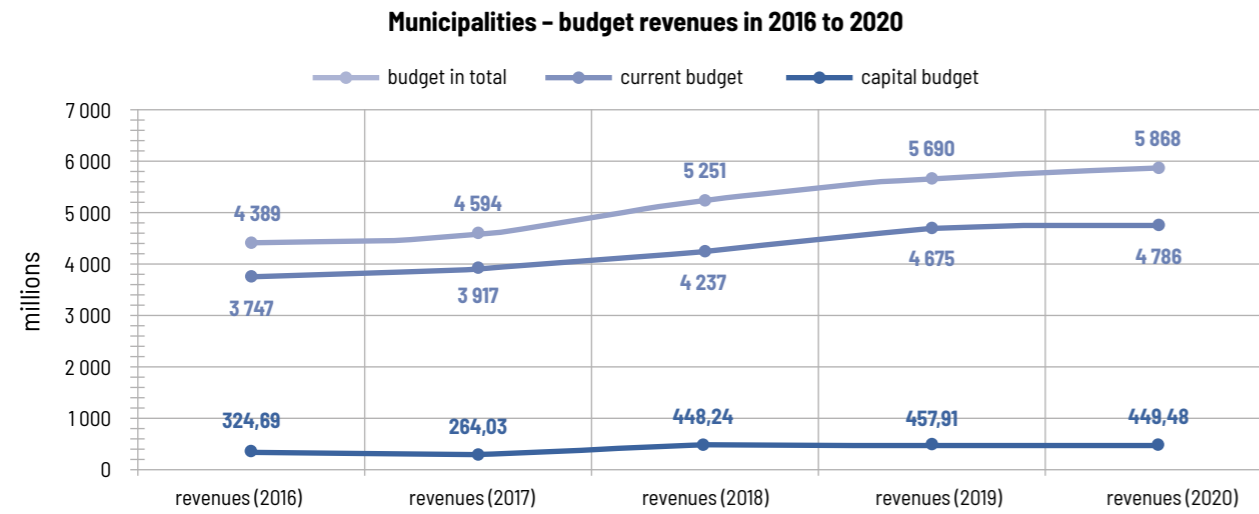
035/2020

The selected business companies in ME SR managerial scope



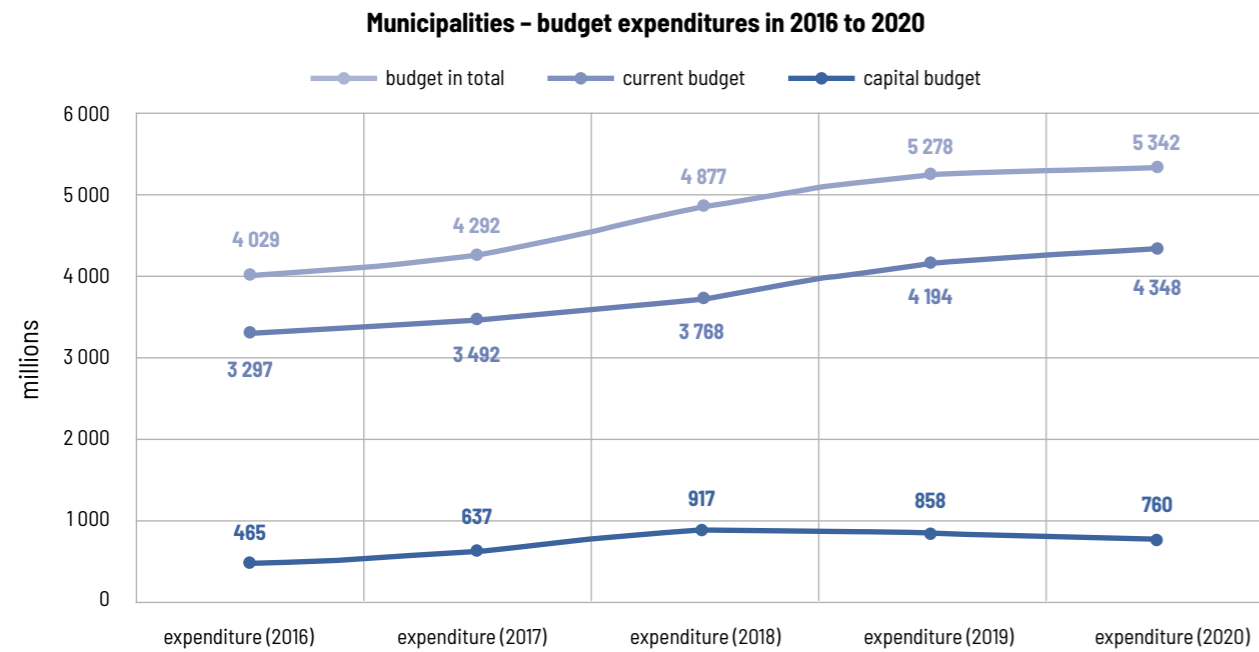
Annex 2: The municipalities economy management in numbers and graphs

Graph 1: Municipality budget revenues



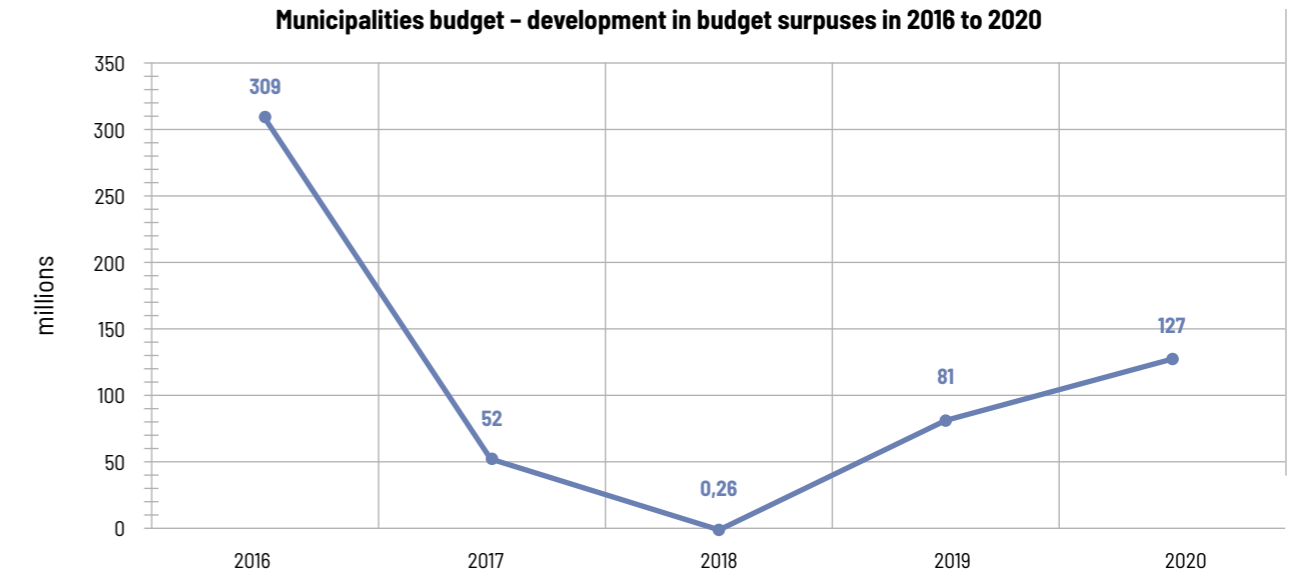
Source: Data from FIN 1 - 12 as of 31. 12. processed by SAO SR. The budget also includes financial revenue operations www.mf.sr

Graph 2: Municipalities' expenditure



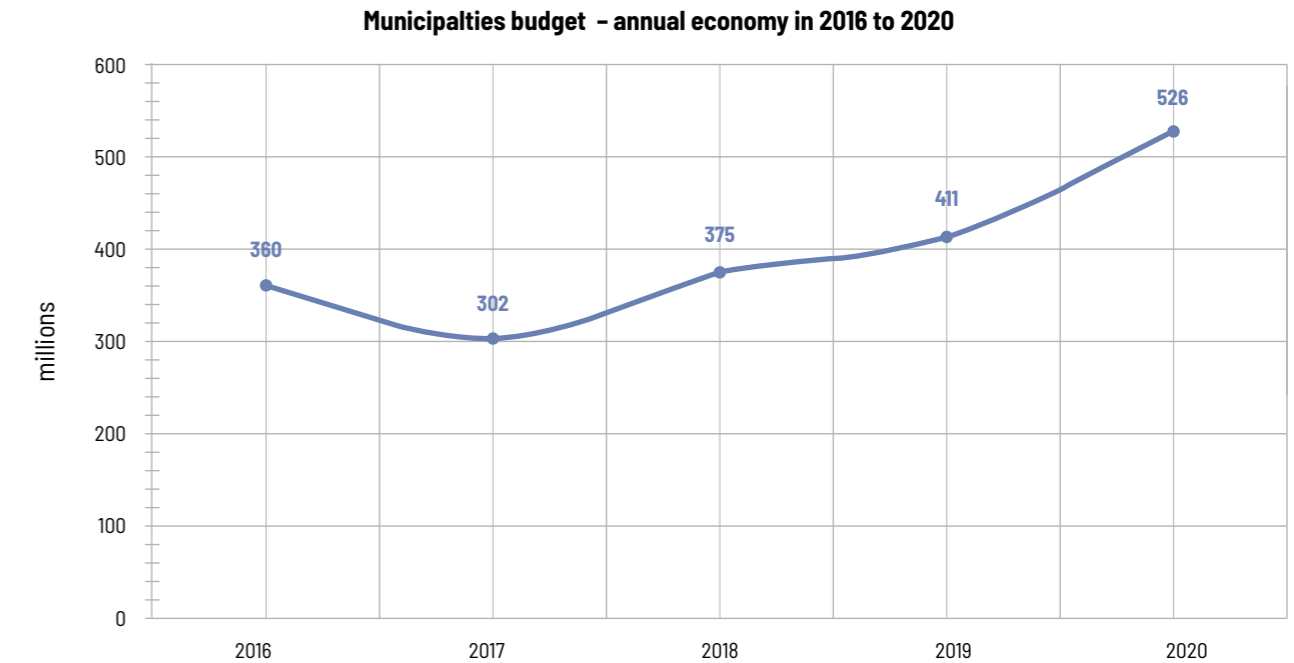
Source: Data from FIN 1 - 12 as of 31. 12. processed by SAO SR. The budget also includes financial expenditure operations, www.mf.sr

Graph 3: The development in the municipality budget surpluses



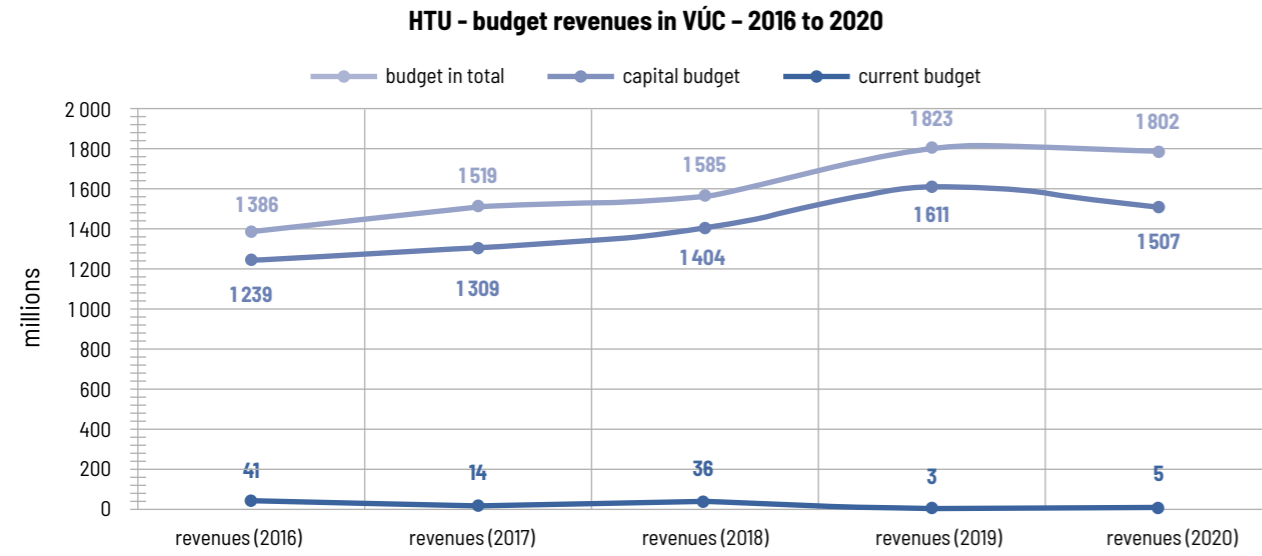
Source: Data from FIN 1 - 12 as of 31. 12. processed by SAO SR. The budget surpluses also include financial revenue operations by Article 10 para. 3 letter a) and b) of the Act 583/2004 Coll. about Budgetary Rules for Territorial Self-government (exclusive of financial operation and unused specific purpose funds) www.mf.sr

Graph 4: Annual economy management in municipalities



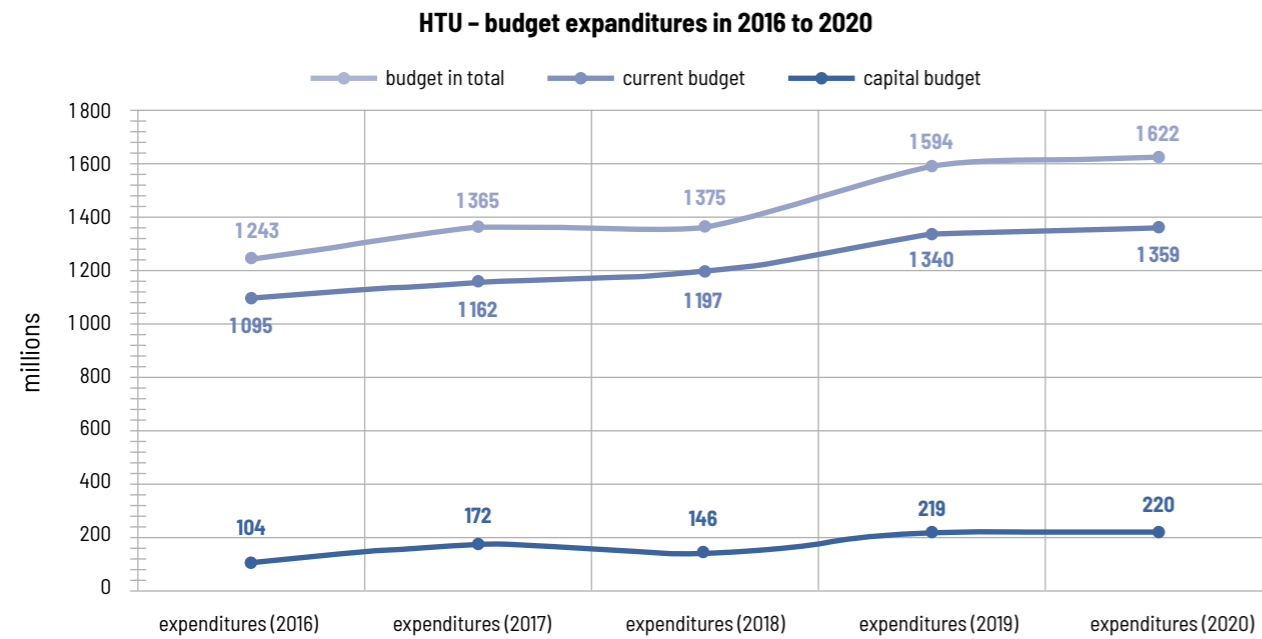
Source: Data from FIN 1 - 12 as of 31. 12. processed by SAO SR. Annual economy of municipalities following the Article 16, para. 8, 10 by Act 583/2004 Coll. about Budgetary Rules for Territorial Self-government, www.mf.sr

Graph 5: HTU Budget revenues



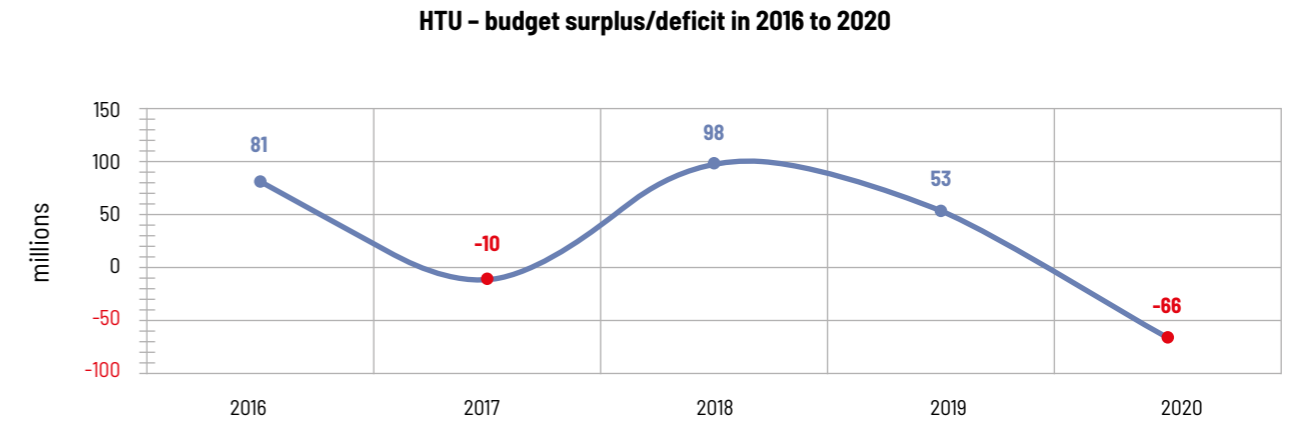
Source: Data from FIN 1 - 12 as of 31. 12. processed by SAO SR. + financial revenues operations, www.mf.sr

Graph 6: HTU expenditures



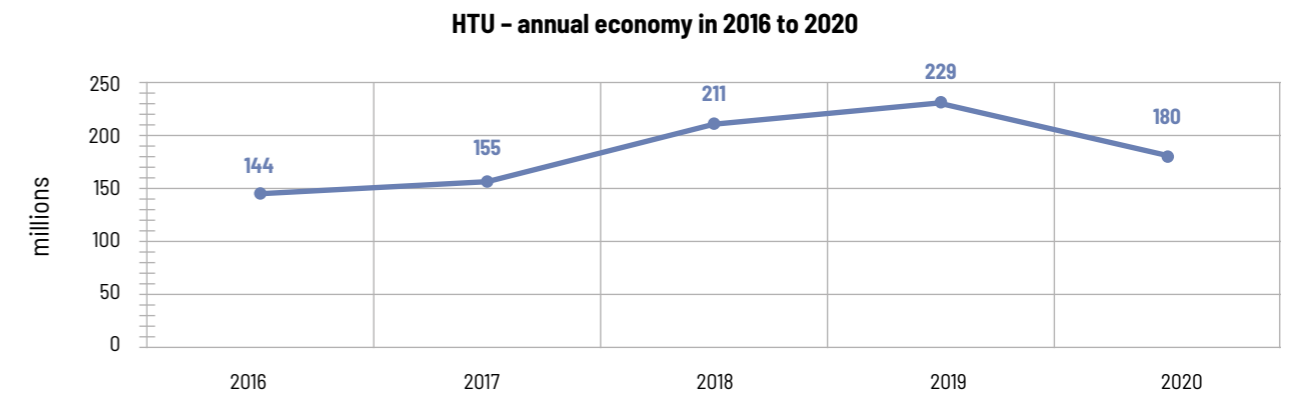
Source: Data from FIN 1 - 12 as of 31. 12. processed by SAO SR., the budgets also include financial expenditure operations, www.mf.sr

Graph 7: HTU economy results



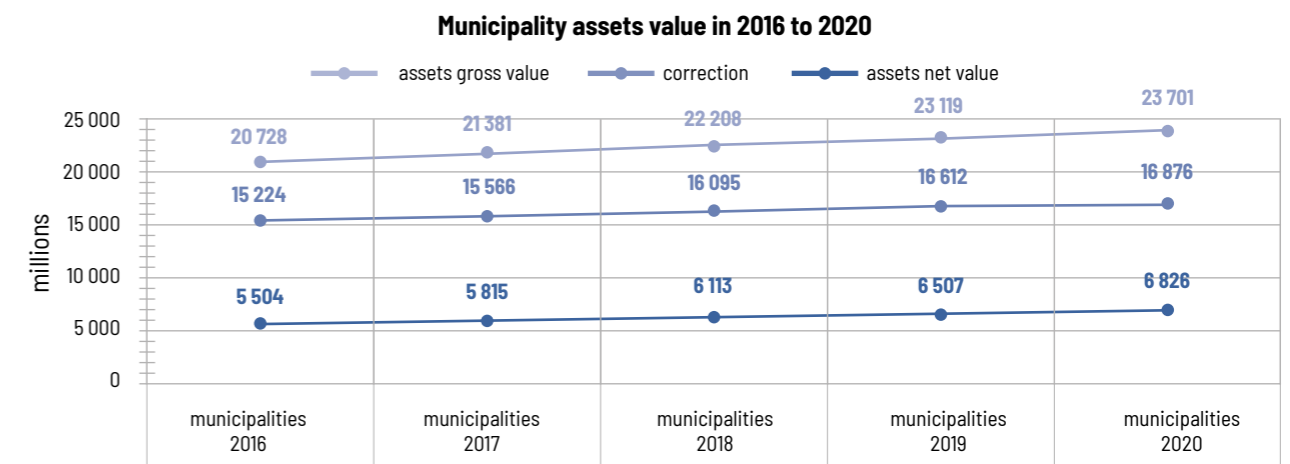
Source: Data from FIN 1 - 12 as of 31. 12. processed by SAO SR., HTU budget surplus/deficit following Article 10, para. 3 letter a) and b) by Act 583/2004 Coll. about Budgetary Rules for Territorial Self-government not counting in financial operational and without exclusion of unused targeted financial operations, www.mf.sr

Graph 8: HTU annual economy



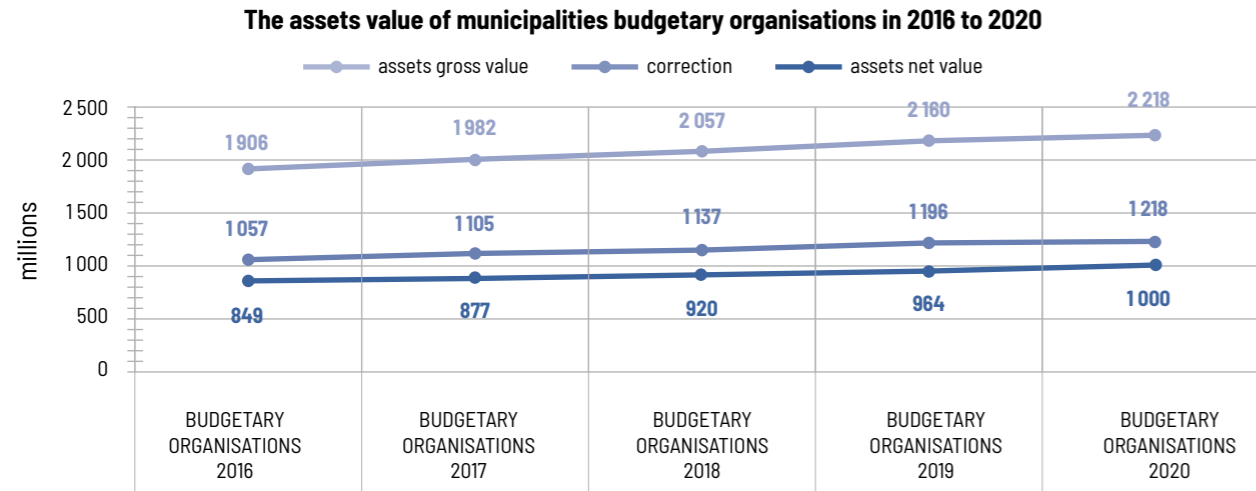
Source: Data from FIN 1 - 12 as of 31. 12. processed by SAO SR., HTU annual economy following Article 16, para. 8, 10 in Act 583/2004 Coll. about Budgetary Rules for Territorial Self-government., www.mf.sr

Graph 9: Municipalities assets value



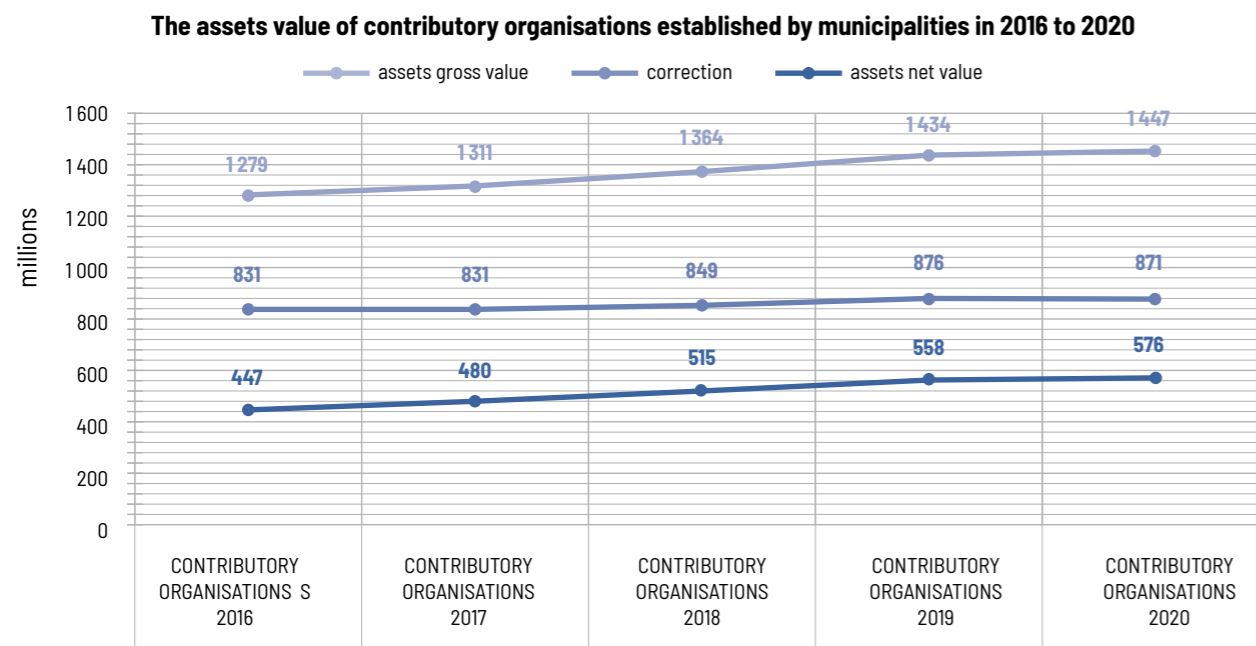
Source: processing by SAO SR, municipalities final accounts, Datacentrum.

Graph 10: The assets value of municipalities budgetary organisations



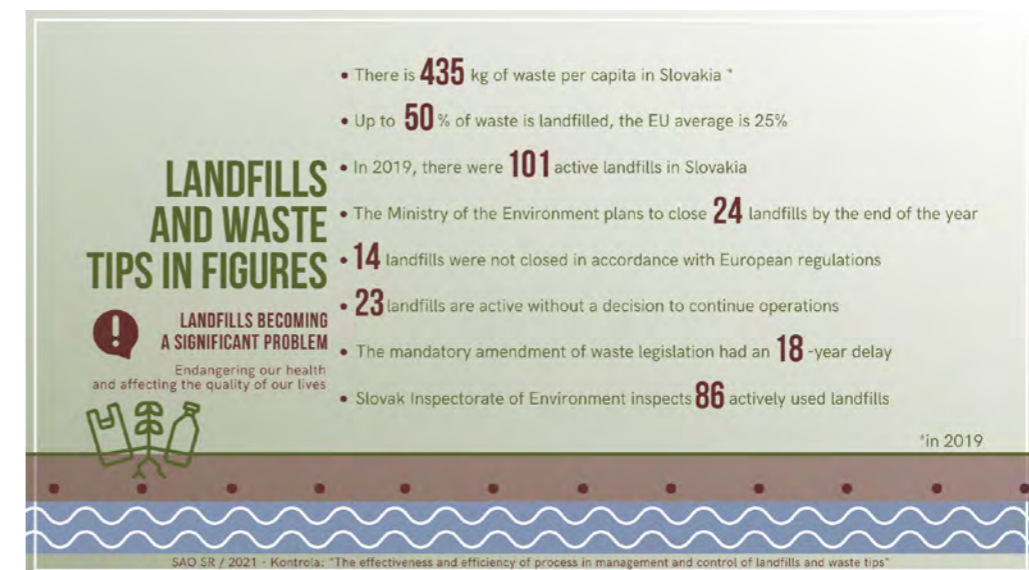
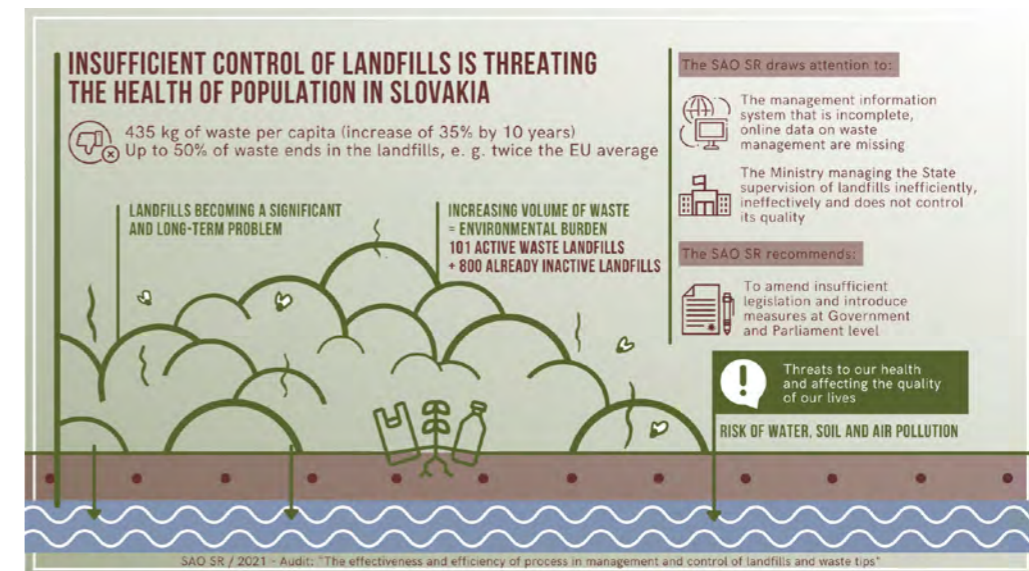
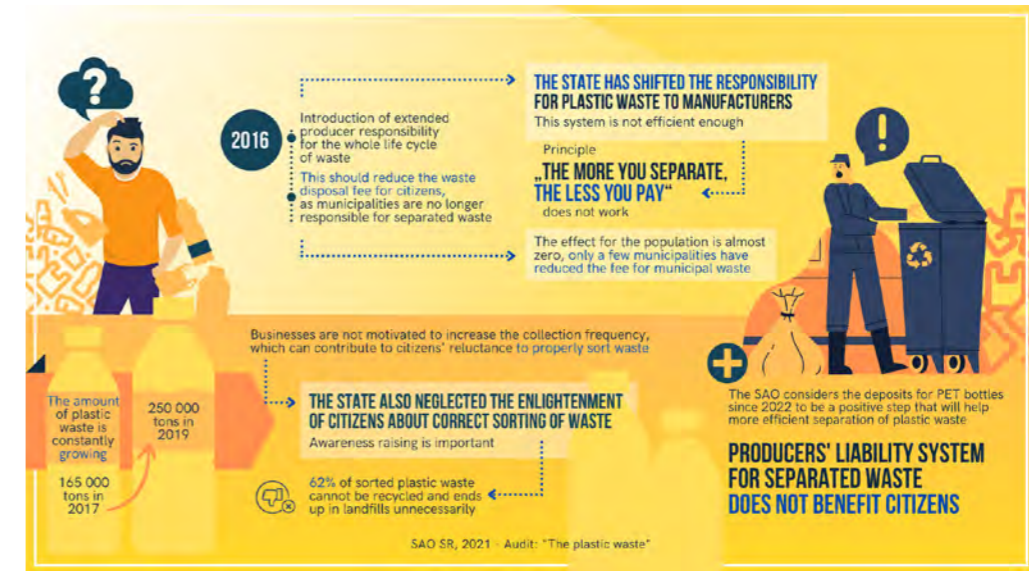
Source: processing by SAO SR, municipalities final accounts, Datacentrum.

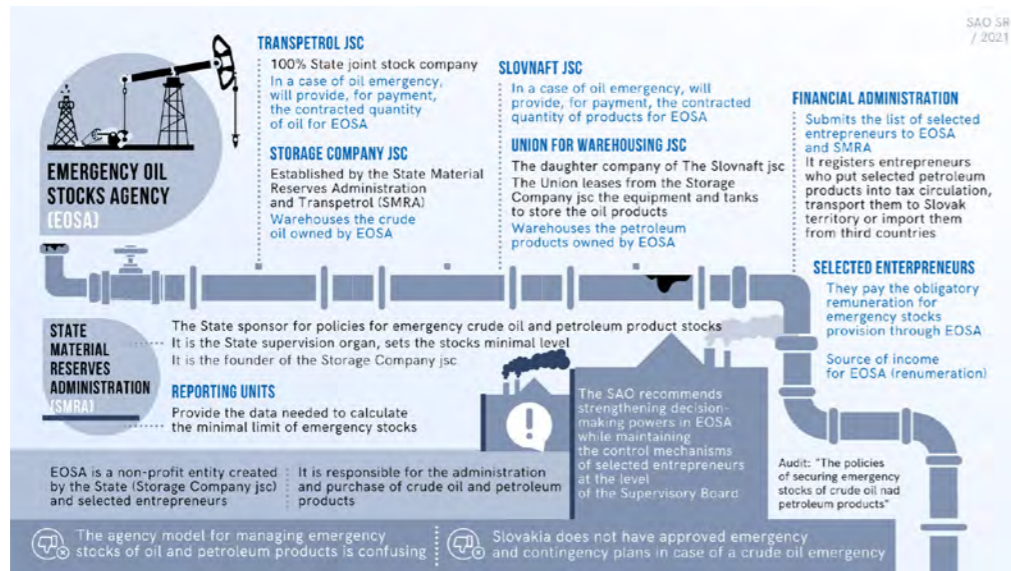
Graph 11: The assets value of municipalities contributory organisations



Source: processing by SAO SR, municipalities final accounts, Datacentrum.

Annex 3: Examples of audit infographics





The community centres are a good tool for self-government, but with untapped potential to improve the living standards of people at risk of poverty or social exclusion.

Ministry of Labour, Social Affairs and Family
Office of the Plenipotentiary of the Government SR for Roma Community
Different visions and approaches to management

Financing from EU
EUR 29 mil for development from 2016
EUR 47 mil for operations from 2016

COMMUNITY CENTRES ARE USED BY ALMOST 1% OF THE SLOVAK POPULATION

Community centres in 2019 in numbers:
240 volunteers
374 community centres
585 employees
50,000 clients

Preschool preparation, clubs, interest groups, hygiene, preparation for schooling ...
Working with documents, job search counseling, medical assistance ...

There is no single concept of State for management, financing and evaluation.
There are no criteria, measurable indicators, evaluation of used EU funds.
Without European money, their activities will be severely limited, and they may disappear.

If centres are priority for the State in the field of social services, it is not possible to rely exclusively on local governments.
The municipality finances community centres with about 15% of costs (energy, telephones, gastro tickets ...)

SAO SR, 2020 - Audit: "Community centres" *source: MLSAF SR

The sole shareholder in Slovak Post is the Ministry of Transport and Development.

The state must guarantee every citizen equal access to basic postal services.

Based on a letter from the Minister of Transport, the Post Office did not sign an agreement about cooperation with O2 approved by the Board of Directors.

The cooperation with the Post Banks is profitable, but the profits decline gradually.

It is asking for the profitability from the Post management.

Though, as the owner, it tolerates the loss-making and unprofitable contracts.

In addition, the State as a client does not pay enough for the postal services to cover the costs.

Some contracts with major partners are set in disadvantageous conditions.

Deliveries of benefits and pensions are loss-making for the Post Office.

Average wage: EUR 862
Average SR: by EUR 230 more

The Post Office revenues are declining due to lower interest in letter services and electrification.

Its dependence on the State budget is increasing, and the State is covering for ever-increasing losses.

The Slovak Post has reserves in strategic planning not reflecting the real development trends or economic reality.

The Slovak Post aims to be the leader in parcels delivery.

The Slovak Post in numbers:
12 700 employees
103 automated parcel machines
1504 Post Offices
+39 partner Post Offices

Future?
The Slovak Post aims to be the leader in parcels delivery.

SAO SR, 2021 Audit: "The provision of Slovak Post services"

How is the anti-dumping and countervailing duty applied?

- The supplier brings goods from a third country to the Slovak market entering in the same time the common EU market.
- The Customs Office assesses and collects customs duties and pays them to the Financial Directorate SR.
- The Financial Directorate SR pays the collected duty according to the formula 20% for the Slovak budget and 80% for the EU budget.

Dumping: non-EU producers supply goods to the EU market at prices below the cost of production and sales on their domestic market.

Subsidies: The governments of non-EU countries financially subsidise producers in the production or export of goods to the EU market.

Antidumping: Instrument for the protection of the EU Single Market: anti-dumping duties - import duties on products from outside the EU.

Countervailing duties: EU instrument as a countermeasure for subsidised products.

SAO SR, 2020 - Audit: "The application of anti-dumping and countervailing duties"

There are 20
so called the least developed districts in Slovakia

What bothers them?

- High unemployment
- Drain of educated people
- Exodus of workforce
- Lack of investment
- Weaker business activity

The Government has developed an individual action plan for each of these districts.

The least developed districts have:

- Disadvantaged use of EU funds
- Better conditions for obtaining investment
- Possibility to draw a regional contribution

Goal:

- reducing district disparities
- increasing their competitiveness
- improving the quality of life of the population
- jobs creation

According to the SAO SR, state aid instruments are not sufficiently effective and efficient.

Audited District Offices: Rimavská Sobota, Poltár, Revúca, Bardejov, Kežmarok, Sabinov, Svidník, Rožňava a Trebišov + Košice - periphery, Ministry of Investment, Regional Development and Informatisation.

SAO SR, 2021 - Audit: "The support to the least developed districts through regional contributions"

INTEGRATED SYSTEM FOR CRISIS MANAGEMENT

Information system built by the Ministry of Economy (ME SR) for:

- ECONOMIC MOBILISATION
- CRITICAL INFRASTRUCTURE
- ORGANISATION OF HAZARDOUS WASTE TRANSPORT
- CRISIS MANAGEMENT

NEVER USED, already marked as surplus State property and delimited to the National Security Office SR (NSO SR)

SAO SR WILL CEDE THE FINDINGS TO THE POLICE, THE GOVERNMENT AUDIT OFFICE AND NSO SR

THE SYSTEM BEING BUILT FOR 7 YEARS FOR MORE THAN EUR 8.5 MIL
If finalised will cost EUR 23.7 mil.

S **PROCUREMENT PRINCIPLES VIOLATED**
Suspicion of purposely withheld public procurement; subsequent declassification

K **INEFFECTIVENESS AND MEANINGLESSNESS**
Extension of the contract by the contractor despite the ministerial internal audit results

R **UNTHRIFTINESS**
Violation of the Act for Budget Rules for Public Administration

A **OUTSIDE OF ME SR COMPETENCIES**
Other organs involved (Nuclear Regulatory Authority SR), absence of the real necessity by the system or the order by Government SR.

SAO SR, 2020 - Audit: "Information system for crisis management"

SLOVAKIA DID NOT PREPARE FOR THE 2ND WAVE OF THE CORONA CRISIS

! An in-depth analysis of State management in times of emergency needs to be performed and the necessary legislative changes made

€ EUR 39 mil
The value of delivered medical devices

The SAO SR recommends:

- to eliminate shortcomings in the ASMR and crisis management of the State
- a new application assessment system, including prioritisation
- a new central information system
- to consider the location of warehouses in Slovakia

Delivery speed of medical devices

The Office of the Government (2 days) < Ministry of Justice (31 days)

The ASMR was not prepared for a pandemic because the responsible crisis management authorities did not request the provision of emergency stocks in time

SAO SR, 2020 - Audit: "The Administration of State Material Reserves SR in times of emergency"

THE SOCIAL INSURANCE AGENCY DID NOT USE THE SAME APPROACH TO INSURANCE PREMIUM DEFAULTERS

No effective steps have been taken against public health facilities to recover unpaid premiums
However, in relation to other defaulters, SIA used all legal means of recovery, including executions and reporting criminal offences

Contributions from citizens and entrepreneurs are significant income of public finances, but the State does not know where and how much insurance leaks and how to improve the system

The SIA lacks an analysis of the gap in contributions. The deficit of the pension fund has long been offset by other SIA funds and the State budget

The basic systemic problem the State must solve are receivables and uncollected debts of State hospitals

The collection and administration of social insurance and contributions to old-age pension savings are performed only partially effectively

The SIA manages without serious deficiencies more than EUR 8 bn redistributing it into pensions, sickness and accident benefits as well as unemployment benefits

WHY?

- ...The SIA collects premiums for private pension companies for only half the price
- ... Amendments to the Social Insurance Act are being adopted without assessing the impact on the SIA
- ... The development of this institution is hampered by the delayed reform of taxes, duties and insurance levies UNITAS

SAO SR, 2020 - Audit: "The system of collection of insurance premiums in social insurance and old-age pensions savings"

Slovakia had EUR 450 mil available to our farmers through the APA in 2018

The Slovak authorities did not use all possibilities to spend this money efficiently and transparently

Questionable transparency and leaky legislation to distribute almost half a bn euros a year

It was able to check only a minimum of applications in the field, the selection of checked applicants could've been influenced

If several applicants claimed support for the same land, a dispute arose with no mechanism to solve it

PPA

The SAO SR points out:

In 2015 - 2019, any applicant could receive financial support without proving a legal relationship to the land

The whole process of submitting, processing and evaluating applications needs to be electronic

The auditors recommend updating the LPIS (Land Parcel Identification System) more frequently

The SAO SR once again confirmed the lack of transparency and efficiency in the APA

The process of approving direct support:

Agricultural Paying Agency → allocation of a subsidy after administrative control of the application → Applicant

To allocate the subsidy, it was enough for the applicant to declare that the conditions were met (e. g. work on certain area of land)

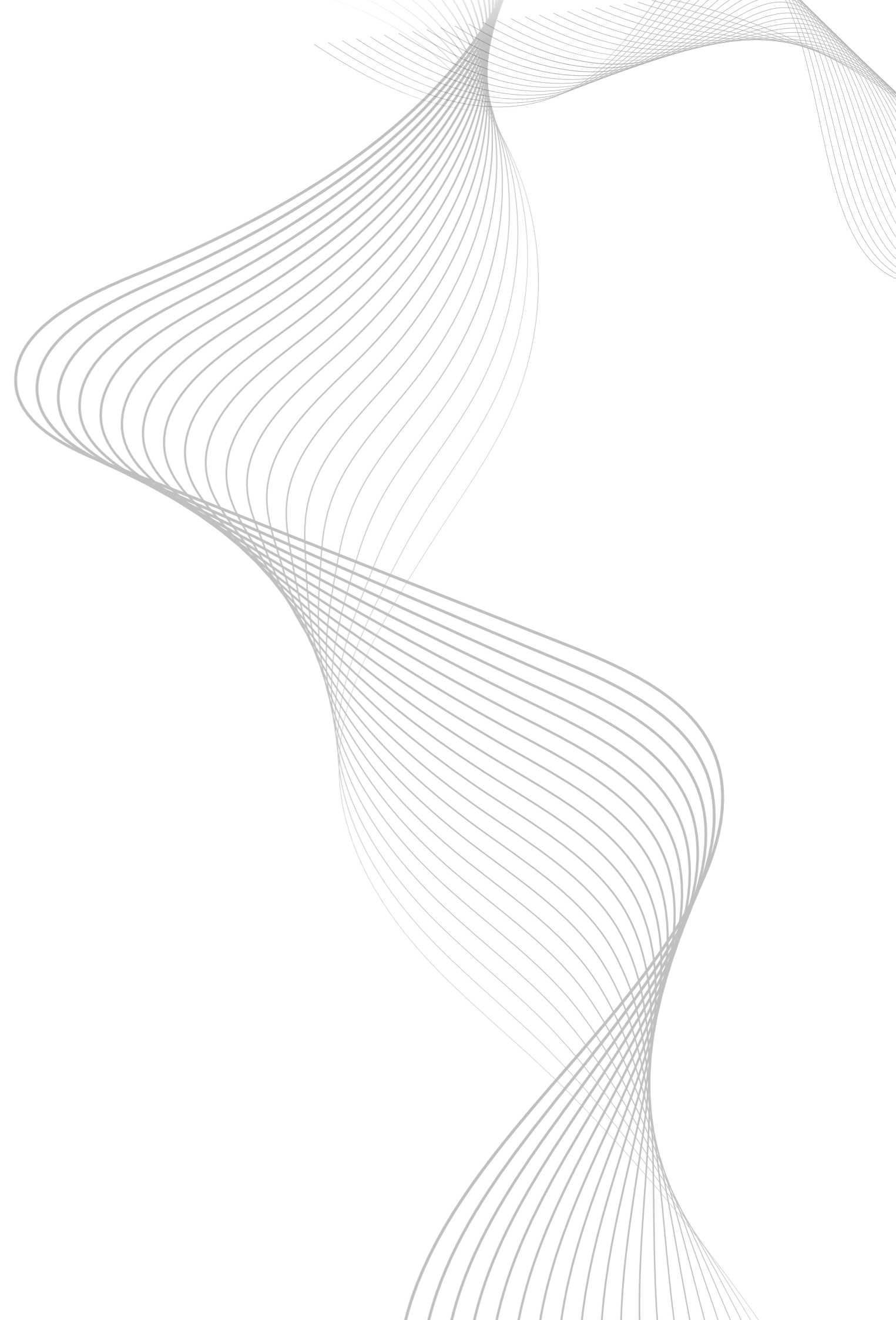
on-the-spot control

Only 5% of the almost 20,000 single area payment claims have undergone a physical control

Grant

Rejection

SAO SR, 2020 - Kontrola: "The system of direct support"



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