



**THE SUPREME AUDIT OFFICE
OF THE SLOVAK REPUBLIC**

ANNUAL REPORT 2013



THE SUPREME AUDIT OFFICE
OF THE SLOVAK REPUBLIC

MISSION

To contribute to the improvement of the administration of public funds and quality of public services by means of carrying out the audits in an effective, efficient and economical manner.

VISION

To facilitate an economical, effective, efficient and transparent use of public funds of the Slovak Republic and European Union by the state administration, local administration and citizens of the state and a continuous increasing of the quality and effectiveness of audit activities in the state and local administration.

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FOREWORD



The year 2013 is an important milestone in the existence of the Supreme Audit Office of the Slovak Republic. It is the year, in which the Office completed 20 years of its existence and assessed the results of its work. The Office did not have the time for the childhood years and juvenescence. Right from its inception it fulfilled the tasks to the full extent in accordance with the competencies, quality and accountability. It required a mutual symbiosis of the management of the Office and its employees in organising the forms and methods of work as well as the flexibility in thinking and acting when applying the necessary new approaches. To the maximum extent we strived to apply the experience and knowledge from the best practices of partner supreme audit institutions in implementing the conclusions of the INTOSAI congresses.

At the same time, the year 2013 was the 9th year of my acting as the President of the Office, who is in accordance with the Lima Declaration of Guidelines on Auditing Precepts, the Slovak Constitution as well as the Act on the Supreme Audit Office of the Slovak Republic independent in his control activities, bound only by the law. Over the past more than eight-year period we have adopted and managed the extension of our role in the area of audit of EU funds as well as the extension of powers to audit the local municipalities. I am convinced that

we have achieved to build quality and flexible institution that is able to react to changes also in the future. There are more facts testifying this. Not only we have acquired the right to use the title of the effective user of CAF as the first institution, but in the this year's evaluation of activities we have obtained more points from the evaluator then less than three years ago. This year we have also been assessed as the institution in the Slovak Republic having the best quantitative ratio of the number of employees between management and executive staff. Media or civic associations reported us among the best State institutions; our web site improved in fulfilling the standards and achieved a shared first place. For the first time in the history we had official speeches at the INTOSAI Congress, namely at the meeting of the Steering Committee and the Main Committee of INTOSAI Capacities Building Committee, at the 64th meeting of the INTOSAI Governing Board as well as at the plenary session of the Congress, where the SAO SR informed about the activities and the action plan of the Subcommittee 3 to promote best practices and quality assurance through voluntary peer reviews.

With aim to facilitate a better management of public property, the Office in 2013 successfully fulfilled the target to realize independent audit activities according to the approved plan of audit activities

in accordance with internationally accepted auditing standards. Following the medium term strategic focus of the controlled activities and on the basis of the assessment of the risks of the impacts to the administration of public funds and public property we focused the audit activities to the health services, transport, science and the research/ education and effective public administration as well as to a systematic audit of the utilization of the EU funds and audit of the fulfilment of the corrective measures taken to correct the deficiencies detected by the previous audits.

By the realization of the audit activities and by the application of the recommendations for the adoption of the correctives measures to eliminate the detected deficiencies, the Office provided to audited entities and involved parties a significant feedback for the evaluation of the efficiency of the managerial work and for improvement of the status in the area of audits. At the same time, by the continuous publishing of results from audits, the Office supported a preventive and educational role of the audit in the society.

Ján Jasovský

The President of the Supreme Audit Office
of the Slovak Republic

STRATEGIC FOCUS AND PLAN OF AUDIT ACTIVITIES IN 2013

In 2013, the SAO SR followed in its audit activities the Strategic focus of audit activities for 2012 – 2014. Within this, it took into the consideration the current economical and commercial evolution as well as the conclusions and recommendations of international organisations INTOSAI, EUROSAI and agreements on the cooperation with foreign supreme audit institutions.

The plan of audit activities of the SAO SR for 2013 contained also tasks resulting from legal obliga-

tions to elaborate the Opinion of the SAO SR for the National Council of the Slovak Republic on the draft of the State Final Account of the Slovak Republic for 2012 and the Opinion to the draft of the State Budget of the Slovak Republic for the 2014.

For 2012 - 2014, the SAO SR defined the strategic focus of its audit activities to the following main topics (crucial areas), sub-topics and particular themes:

Health services

Transport

Science and research / education

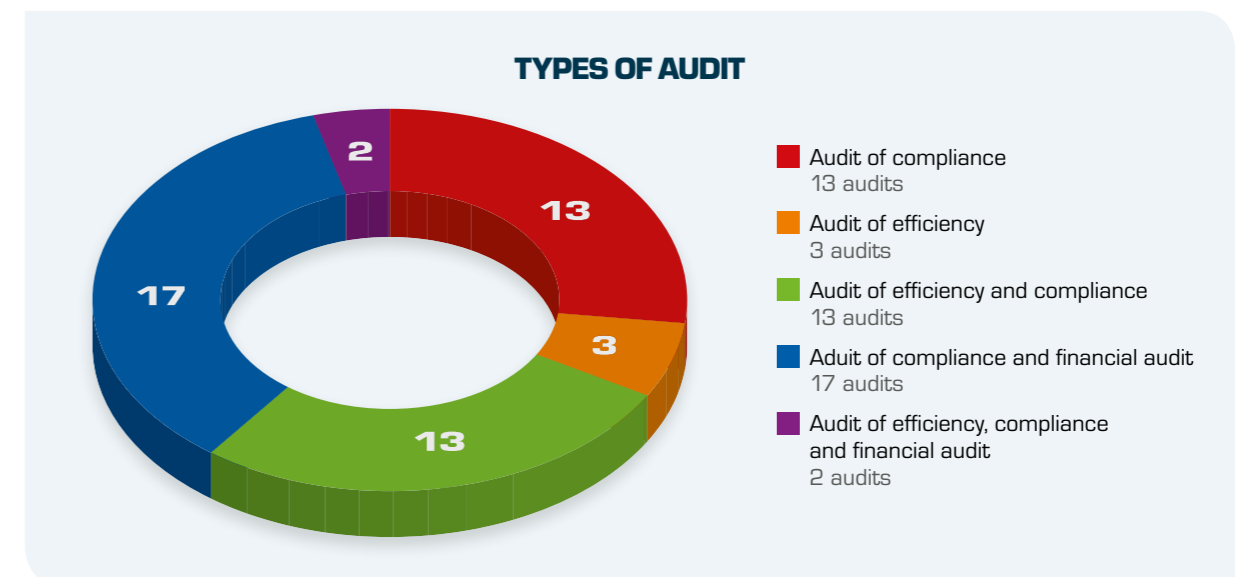
Effective public administration

- **Local administrations**
 - Satisfaction of citizens
 - Status of the reforms in the local administrations
- **UNITAS**
 - the reform of the taxation system
- **Selected topics on the basis of the analysis of risks**
 - Marginalized Roma communities

Audits resulting from the Act on the SAO SR

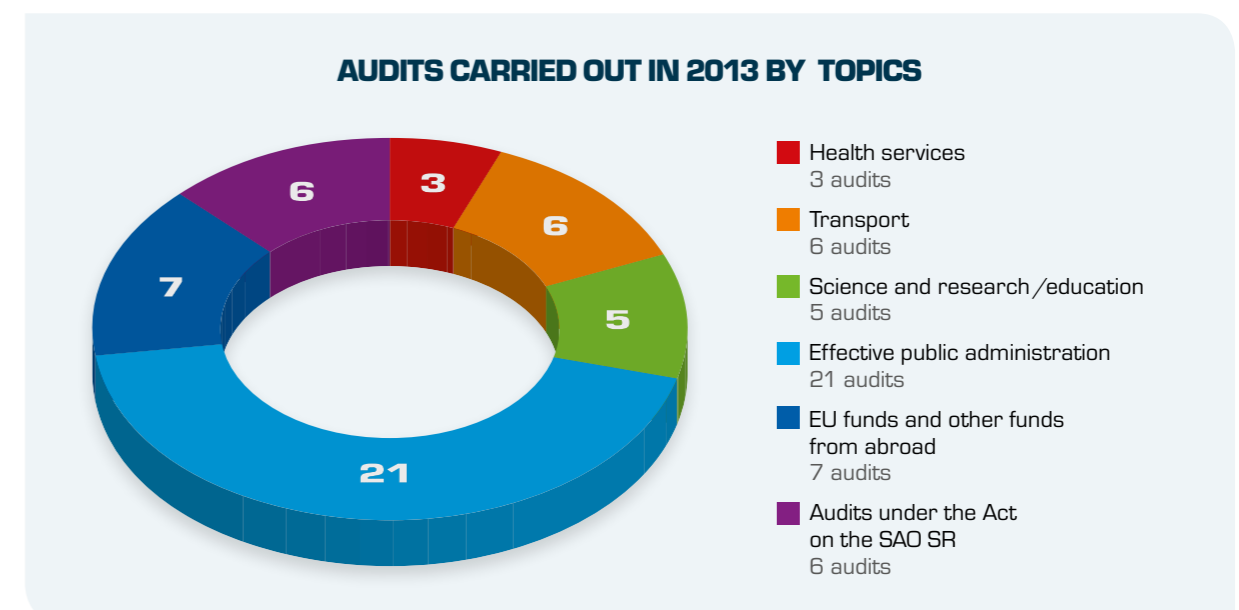
The plan of audit activities of the Supreme Audit Office of the Slovak Republic for 2013 included 47 audits. Actually, in that year, the SAO SR carried out in total 48 audits in 268 audited entities. There are three basic types of audits resulting from the meth-

odology of the SAO SR; namely the audit of the efficiency, audit of the compliance and a financial audit and also it is possible to apply its combinations. The number of inspections according of the individual types for 2013 is shown in the following chart:



The number of audits carried out in 2013 by topics resulting from the Strategic focus of the audit activ-

ities of the SR SAO for 2012 – 2014 is shown in the following chart:



SUMMARY OF AUDIT FINDINGS AND RECOMMEN- DATIONS FOR CORRECTING THE DEFICIENCIES

HEALTH SERVICES

The audit on spending of public funds to cover the costs of the operation in selected health services facilities found an uneconomical acting under the Act on the Budget Rules in the total amount of 970,976.00 EUR committed by the failure to apply the Public Procurement Act in the procurement of goods and services and by failure to create the competitive conditions, by payment for the engineering services for the zoning decisions and by not using the possibility to prolong the original decisions, by the reconstruction of sanitary facilities and by paying the penalties for non-compliance with the obligations to suppliers. On the other hand, the entity failed to penalize its suppliers for late payments; it means it failed to take care for the claims of the state, thus acting in the contradiction to the Act on the State Property Administration. Further, it was found that there were the general contracts concluded in the contradiction to conditions of the competition as well as to the offers of successful tenderers.

Inspection of information and communication environment of an integrated rescue system of the Slovak Republic carried out on the Ministry of Interior of the Slovak Republic and in the Operational Centre of the

Emergency Medical Service of the Slovak Republic found that the fulfilment of the objectives set out in the conceptual materials of the integrated rescue system was continuously assessed by means of reports on fulfilment of the tasks, respectively measures, which were elaborated on the basis of the resolutions of the Government of the Slovak Republic; however, the adopted necessary structural measures for the assurance of an integrated rescue system in the area of information and communication technologies were only partially effective.

There were the deficiencies found in the area of the strategic planning of the integrated rescue system related to fulfilment of the objectives resulting mainly from limited financial resources, too general specification of set objectives and the extent and complexity of the integrated rescue system.

There wasn't implemented any common integration platform for the communication and information interconnection of control supporting systems of all basic rescue units of the integrated rescue system, thus failing to provide for an effective interchange and processing of emergency information between the basic rescue units of the integrated rescue system; there was no updated and assured

development of a geographical information system used for the coordination centres of the integrated rescue system, the communication technologies permitting the communication between persons with disabilities failed to be implemented and there was no integration assured between the reception points of the emergency lines to the regional level.

Other identified deficiencies were related for example to the failure to perform the professional training of persons included in the coordination centres of the integrated rescue system, then to the Act on the State Property Administration, the Act on Accounting, the Decree of the Ministry of Finance of the Slovak Republic No. 312/2010 Coll. on Standards for the Information System of the Public Administration, failure to apply the penalties for non-compliance with the conditions of the contract against the supplier of the stabilization project APV WIN-KOS and failure to provide for the contractual maintenance services for the support system of the Ministry of Interior of the Slovak Republic.

The audit on spending of public funds in selected areas, focusing mainly on the remuneration in selected health facilities found deficiencies related especially to the prolongation of the employment relation for the definite period without stating the reason of such prolongation in the annex of the employment contract; then to the appointment to and performing the position of the deputy of the principal of audited hospital, which was not in the accordance with the Act on Works Carried out in Public Interest and with the working rules.

Several salary decrees, respectively agreements on salaries included in the labour contracts, failed to include the date and signature of the employee. The granting of the personal bonus to the employee did not comply with the collective agreement. In one health facility, there was the discrepancy

found between the internal directive and the Labour Code in the calculation of compensation for inactive part of the standby work service outside the workplace.

The discrepancy was found also between the mentioned internal directive and the collective agreement. The decree on the salaries did not include the signature of the statutory body and some decrees were not taken over by the employees; in one case the decree was missing completely in the file of the employee. In one health service facility, there was the salary class missing in the decree on the salaries in the category doctor.

Further, it was detected that the labour contracts for the definite period did not state the duration of labour relation, personal allowance was not regulated in accordance with the collective agreement, newly contracted employee – a graduate was given the variable part of the salary, in one case there was the recruitment allowance paid to an employee in the contradiction with the collective agreement and the corrections in the salary reports were carried out in an incorrect manner.

During the audit activities in the area of health services, the SAO SR recommended to look for the opportunities within the resort itself to review the number of beds and their occupation without limiting the availability of health care; to create prerequisites for the e-health system with aim to increase the efficiency and quality of the health treatment processes; to analyse the possibilities to change the legal identity of some health care facilities for example to public limited companies. Furthermore, on the healthcare institutions level, it recommended to focus on the rationalization, consolidation of departments in hospitals and the analysis of personal costs in the most loss-generating departments in hospitals with the proposals for structural changes.

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS FOR CORRECTING THE DEFICIENCIES

TRANSPORT

The audit of using the public funds dedicated to reconstructions, repairs and maintenance of the 1st class roads and related infrastructure and of contractual relations realized during 2011 – 2012 on the Slovak Road Administration showed that of the total length of the roads of the 1st class under the control of the Slovak Road Administration

(3,251.3 km) there were more than 47% of the roads of the 1st class in an unsatisfactory condition and more than 6% in the state of disrepair. The operational life of the roads after repairs is approximately 8 to 10 years. In order to assure a projected span of the durability of roads, it is necessary to provide for their cyclical recovery. This means that if the Slovak Road Administration administers 3,251 km of roads, it should repair approximately 325 km of the 1st class roads annually to provide for the estimated 10-years durability.

In fact, in 2011, there were repaired and put into operation roads and their components in the length of 29.581 km. There were in total 109.735 km of new and reconstructed roads of the

1st class put into operation. In 2012, 10.255 km of

the 1st class roads and their components were repaired and put into operation and in total there were 336.919 km of new and reconstructed 1st class roads.

The demand for the repairs is increasing year to year. In 2011, the requirement was to repair 193 sections of roads and bridges in a total amount of 94.3 million EUR. In 2012, this requirement increased to 225 sections in the amount of 97.9 million EUR.

The calculation shows that to get rid of the non-compliant and emergency status of the 1st class roads (without bridges), the amount of approximately 247.6 million EUR would be necessary. In 2011, in total 149.1 million EUR were used, of which 54.2 million EUR were general expenses for the maintenance and 94.9 million were the capital expenditures for the reconstructions. In 2012, in total 159.1 million EUR were used, of which 39.1 million EUR of general expenses for the maintenance and 120.0 million EUR for the capital expenditures for the reconstructions.

Some of planned repairs haven't even started due to lack of current expenditures. On some roads, only the pavements were changed, where according to the results from diagnostics also the

repairs of other, deeper layers of the structure of the road would be necessary. Since the object of the delimitation to higher territorial units (HTU) in 2004 included also the centres of the Slovak Road Administration (SRA), the maintenance of the 1st class roads and non-capital repairs were provided by contractors in 2011 and 2012. The suppliers of paid contractual maintenance services were budget non-profit and contributory organisations, respectively joint stock companies established by the HTUs and also the field offices of the National Highway Company in the next period. The contractual price for the maintenance was set by an agreement. Prices were calculated on a commercial basis. In this context, it was found that the division of roads under multiple administrators and inability to perform the maintenance by own capacities did not contribute to effective spending of public funds.

The audit has proven, that following the interest in an effective and efficient spending of public funds, the superior authority should have released the pricing methodology before splitting and delimitation of the centres for the roads administration and maintenance to HTUs, which would in a certain manner set the calculation and prices of the maintenance of the 1st class roads and this mainly because the procedures under the Public Procurement Act could not be applied to concluding the contracts.

Among the randomly selected sample of 57 contracts concluded in 2011 and 2012 in the total amount of approximately 85.2 million EUR, there were deficiencies found in 32 cases. The deficiencies were detected mainly in the area of contractual relations and in public procurement of services and construction works.

In the context of program budgeting in 2011 and 2012, there was the failure to meet set objectives detected in some cases, respectively only a partial

fulfilment of the objective was found. The reason for the failure was an unexpected delay in the public procurement process (the complaint of the tenderer, the suspension of the public procurement by the order of the Minister), which resulted in the delay of the realization process itself of the constructions to which the fulfilment of the objectives was linked.

Further, the inspection detected that the Ministry of Transport, Construction and Regional Development (MTCRD SR) did not follow the Competence Act by failing to elaborate the program for the repairs and maintenance for 2011 – 2014 building on the previous program (2007 – 2010). Thus there weren't the sufficient resources provided for the SRA to cover the repairs of the 1st class roads. In 2011 and 2012, the issue of funding was solved by budgetary measures, which within the possible limits of the Chapter of the Ministry of Transport, Construction and Regional Development increased the expenditures for the SRA for the repairs and maintenance of the 1st class roads.

At the end of December 2012, the Ministry of Transport, Construction and Regional Development elaborated the proposal for the "Program of repairs and maintenance of the 1st class roads for 2013 – 2017", which was submitted to the Government Office on 27th December, 2012. However, the proposal was not included to the agenda of the Government of the Slovak Republic in the 1st half of 2013.

The results of inspections of the internal audits showed that the Department of Inspections, State Supervision and Audits of the Ministry of Transport, Construction and Regional Development did not carry out any audit of the SRA related to expenditures for repairs and maintenance focused to determine the legitimacy of the requirements of the SRA.

The audit of the efficiency of public spending in the operation of railway transport in 2011 and 2012 in the Slovak Railway Company, Plc.

showed that the Slovak Railway Company has a strategic document approved - the Transport Development Strategy of the Slovak Republic until 2020 and a current document - the Program of the Revitalisation of railway companies aiming to establish the revitalisation plan of Slovak railways. Assessment of the fulfilment of the Revitalisation program showed to the SAO SR that out of a total 18 inspected tasks there were 14 met, 1 partially met and 3 unmet. However, one of the main goals of the Revitalisation – the balanced budget of the Slovak Railway Company in 2013 was not achieved.

The inspection showed that the Ministry of Transport, Construction and Regional Development of the Slovak Republic did not elaborate the service transport plans to address the efficiency and effectiveness of provisioning of transport services. Two years after concluding the Contract on public interest transport services there was no quality management system elaborated, which the carrier should adhere to. The investment plan for 2011 was not elaborated by the Slovak Railway Company and for 2012 it was approved by the Ministry of Transport, Construction and Regional Development of the Slovak Republic with about one year delay. The Ministry of Transport, Construction and Regional Development of the Slovak Republic had no effective system of incentives and other mechanisms in the case of the failure to meet the commitments resulting from the Agreement on Public Interest Transport Services. At the same time, the audit found that the Ministry of Transport, Construction and Regional Development of the Slovak Republic provided to the Slovak Railway Company 33.2 million EUR over contractually agreed terms (over the 1/12 of planned yearly payment) due to a temporal lack

of funds. The sum of total advanced payments for 2012 did not exceed the amount of funds allocated in the State Budget for 2012.

The effectiveness and efficiency of spent public funds was largely influenced by the fact that the Ministry of Transport, Construction and Regional Development of the Slovak Republic did not specify the extent of economically justified costs in the annex to the Agreement on the Public Interest Transport Services, which should be accepted within the frame of the fulfilment of the commitment of the carrier. The failure to define the economically justified costs leads to an unsystematic financing solutions and can also result in inefficiency and ineffectiveness of spending of public funds. The Ministry of Transport, Construction and Regional Development of the Slovak Republic did not carry out any inspections, except for quality inspections, especially focused on meeting the conditions resulting from the Agreement.

It was found that at the moment of the audit, there was no clear visions present for solving the coordination of public transportation, which would effectively address the division of capacity delivery between public bus transport and railway transport (elimination of parallel lines and better continuity of connections) and which would be supported by legislation. The Act on the Railway Transport Coll. supposes that starting from the 01st January 2016 the ordering party in the case of the railway transport will be the HTUs. This solution is considered to be a risky one by the Ministry of Transport, Construction and Regional Development of the Slovak Republic as well as by the HTUs also in the absence of the role of the integrator of the transport, who would organize the public transport.

The audit has also found that the Slovak Railway Company failed to meet the majority of the actions for the reduction of the cost items from the Revitalisation Program. It did not reduced the costs in the

planned extent by the application of e-auctions, by cancelling the train lines, cancelling the jobs in the management of the company and investments into the property of the company to the extent of own resources. Realized were the measures related to the cessation of the rail transport services on selected routes, increasing the fares and introduction of new services to customers.

In the audited period, the Slovak Railway Company received the subsidies from the State Budget in the amount of 205.0 million EUR in 2011 and 199.4 million EUR in 2012. It recognized the commitment of 16.2 million EUR in the Protocol on the Assessment of the Fulfilment of the Agreement for 2011 and it pledged to pay the loss before the end of February 2013. The accepted commitment was not paid at the date of the termination of audit. The Slovak Railway Company recognised the commitment in the amount of 29.3 million EUR by the Report on the Assessment of the Fulfilment of the Agreement for 2012 and pledged to pay the loss till the end of the year 2014; thus failing to meet tasks of the Revitalisation Program.

The Slovak Railway Company reported costs for swap operations in its accounting. In the audited period, the costs of these operations were in the order of almost 7.0 million EUR higher than the income from it every year. The audit found that in 2010 and 2012 the Slovak Railway Company concluded contracts with the audit company from Bratislava. Their subjects were the consulting services in the area of financial derivatives including the advisory on their valuation. The Slovak Railway Company paid for the provided services to the audit company the sum of 92,800 EUR on 30th June, 2013. In addition to these payments it paid the amount of 49,600 EUR to the law company from Bratislava for the consultancy carried out in August 2011 and October 2011. The audit revealed that some outcomes of the audit company and the law company from Bratislava are equal in its wording.

Found facts were not in the compliance with the Act on Budgetary Rules of the Public Administration as amended.

On the basis of the surveys of the satisfaction of customers carried out by the Slovak Railway Company in 2011 and 2012, the audit found that the most frequently claimed shortcoming in the quality of offered services was the cleanliness and hygiene in trains. The audit revealed that the Slovak Railway Company did not take over the trains after cleaning by especially assigned staff, but the receptions were carried out by employees having these activities as non-core activity.

The administrative premises of the Slovak Railway Company on the Žabotova and Železničarska Street in Bratislava are unused in the long term, respectively used as a dormitory, which shows that the conditions detected by the SAO SR in 2007 persist despite of measures carried out by the Slovak Railway Company in the given matter.

The audit of the economy and the fulfilment of the measures for increasing the effectiveness of the operation of the M. R. Štefánik Airport, Plc. during 2011 – 2012 showed that the Conception of the Development of Bratislava Airport, Plc. since the 2006 was not clear and depended on decisions of the Government of the Slovak Republic, which were significantly modified in the short term.

The deficiencies detected by the audit were related for instance to the contract for the ground handling services, services prices lists, public procurement, accounting, providing the funds for the benefits of the representative of the state in the bodies of the company, receivables and the internal audit.

Considering the extent of the credit burden of the M. R. Štefánik Airport, Plc. (construction of the new

terminal) and operational results it is achieving in the recent years it would be suitable to successfully finish the procedure of the selection of the strategic partner by the Ministry of Transport, Construction and Regional Development of the Slovak Republic, which would be granted the concession for the operation, from which the loans should be repaid.

By means of the audit of the finished transport projects financed from the EU funds in the Slovak Railways, the SAO SR checked the legality and correctness of using the funds for finished selected projects in railway transport (Modernization the railway route Žilina – Krásno nad Kysucou and Žilina – Teplička marshalling yard, the 2nd construction, the 2nd stage, funded within the Operational Program Transport for the Programming Period 2007 – 2013).

The findings of the SAO SR before the construction phase of the projects concerned were related to the failure to establish the criteria and justification of the prioritizing of the projects by the Slovak Railways. The SAO SR detected several deficiencies in the area of the public procurement mainly in archiving the documentation from the public procurement process, in failures to meet the information obligations towards the Office for the Public Procurement, in releasing the deposit and mainly when establishing the conditions for the participation in the public procurement in the contradiction to Public Procurement Act. As a crucial fact in the case of establishing the conditions for the participation in the contradiction with the Public Procurement Act can be considered the decision of the Office for the Public Procurement confirmed by the SR Supreme Court judgment, by which it imposed the inspected subject Slovak Railways to cancel the discriminatory conditions in the tender for the subject of the tender „Slovak Railways, Žilina – Teplička marshalling yard, the 2nd construction, the 2nd stage“. This guided the Slovak Railways to

cancel the tender and to reopen it with similar discriminatory conditions for the participation, which again were in the contradiction with the Public Procurement Act despite the decision of the Supreme Court of the Slovak Republic.

Based on the facts found by the audit, the SAO SR asked the Ministry of Transport, Construction and Regional Development of the Slovak Republic for an early solution of the question regarding the letter of the European Commission Ref. Ares (2012)353687 – 27/03/2012, which suspended the expenditures for the Slovak Railways as the recipient and excluded it from the report of expenses submitted to the European Commission.

The inspection of the efficiency and effectiveness of using the public funds and the property of the subjects of local government authorities in administration, maintenance and renovation of local roads was carried out in 16 local government subjects during 2010 to 2012. The SAO SR collaborated with the University of Žilina and the Transport Research Institute in preparation of this audit.

The audit revealed that the controlled subjects had deficiencies in an effective and efficient management of funds in the area of administration, maintenance and renovations of local roads. Management of towns and villages was significantly influenced by their financial situation and possibilities of budgets. The decline of spending for all municipal activities was reflected also in the expenditures for the local roads.

The audit detected a differentiating approach of controlled entities to public procurement. While some subjects relied on a simple market research, others used the possibilities of the e-auction. Especially in the case of low-value contracts, the approaches of procuring public authorities were not comparable at all.

The activities carried out by the audited entities in the area of local roads were in line with the defined intentions and goals in short-term and mid-term strategies. When monitoring the state of the local roads, the approach based on a systematic collection of structured data on local roads was not applied. Audited entities did not have sufficient information about local roads and their impartial status. Only some controlled entities had defined the basic quality levels for the community service included in the measurable indicators of the program budget.

Also, there was the dependency found on the size of the audited entity influencing the program budget compilation. While smaller entities did not have any program budgets complied or had only formal ones, the majority of the larger entities had the potential of the program budgeting exploited to the much higher level. The budgets of smaller entities were missing the purposefulness and orientation for planned results.

Evenly, the larger and smaller entities were showing the deficiencies when planning the long-term intentions and objectives; it means during compilation and monitoring of programs of economic and social development. In most cases, the audited entities had no measurable indicators established, which made it difficult or impossible to track them by the management of audited entities. In most cases, the long term intentions and goals had neither established deadlines nor the estimated expenditures for their realization, which made it difficult for the audited entities to review their fulfilling. The long-term and mid-term intentions and goals were not evaluated during their realization in majority of cases. Some activities were included in the long-term plans despite being clear in advance that the costs for their realization significantly exceed the financial possibilities of audited entities.

In some cases, the audited entities could not quantify, how many resources actually consumed for the activities related to the local roads. In most cases they did not apply the accounting system providing relevant information on the costs on local roads. In several cases it was shown that the expenditures for the local roads were filed as the costs for other community activities or vice versa, when non-related expenditures were booked within the program of local roads. The absence of data on the actual costs and expenditures could adversely affect the decisions of the management of audited entities regarding the form of providing for the community service.

In most audited entities it was detected that despite the existing intentions within the programs of economic and social development, the support for the non-motorized transport was not sufficient. For example, when determining the action plans related to cycling routes, there was the failure to follow the conception of the development of the cycling, adoption of which was recommended according to the Transport Policy of the Slovak Republic until 2015.

The municipalities and towns applied the best practice procedures only partly or neither, since they did not know them. Also, the audited entities failed to apply to the higher extent the managerial procedures; they did not exploit the potential of program budgets or the programs of economic and social development.

The audit of spending of public funds for constructions of highways, motorways, including the related infrastructure carried out in 2011 – 2012 in the National Highway Company, Plc. The review of the fulfilment of the Agreement on the Dedication of the Funds from the State Budget and of the Agreement of the Provision of Subsidies from the Budget Chapter of the Ministry of Transport, Construction

and Regional Development of the Slovak Republic for 2012 between the Ministry of Transport, Construction and Regional Development of the Slovak Republic and the National Highway Company, Plc. during financing the capital construction of highways and motorways showed low utilization (less than half) of funds for the construction of highways and motorways during 2011 and 2012. Low exploitation was caused mainly by unfinished processes of public procurement for construction works and the construction supervision and by the lengthy process of the property-legal settlement of the land.

Further, the failure was detected to meet the planned objectives of the Program 053 Road Infrastructure for the item No. 0530305 Highways and Motorways established for the period of 2011 and 2012 (especially in not built length of highways and motorways and in not started construction of highways and motorways). The Ministry of Transport, Construction and Regional Development of the Slovak Republic and the National Highway Company modified the range of the planned task by the Addendum No. 1 to the Agreement (by reducing by 1 task in the area of investment constructions) 87 days after the end of the period (year 2011), in which the tasks had to be fulfilled.

In 2011, the National Highway Company, Plc. submitting the requests for the subsidies, which are the output of the cost accounting, did not proceed in accordance with the Agreement and did not submit the requests for the subsidies in monthly, decade or weekly intervals, but in different irregular intervals.

Similarly, the frequency of submitted requests for providing the capital transfer in 2012 showed to the SAO SR that the National Highway Company, Plc. did not proceed in accordance with the Agreement and did not submit the requests in quarterly, monthly or weekly intervals, but in other irregular

intervals; this happened in the months of September, November and December.

The National Highway Company failed to submit the information for the first quarter on the fulfilment or non-fulfilment of the utilization of funds in accordance with the Agreement, according to which the recipient is obliged to inform the provider on a quarterly basis about the spending of the funds.

The review of the compliance with the conditions of the Agreement on the provision of the non-returnable financial contribution for the project of D1 Dubná Skala – Turany showed that the National Highway Company, Plc. did not secure contractually the obligation of the constructor to provide in written the data about the number of employees needed to fulfil the contractual obligations within 1 month after signing the contract for the provision of goods, services or realization of construction works. The cause of the failure to meet the mentioned contractual obligation was the fact that the contracts for providing the goods, services or realization of the construction works were signed before signing the Agreement on the Provision of the Non-returnable Financial Contribution.

During the audits, the SAO SR recommended for the area of transport several corrective measures, such as:

In **review of the efficiency of spending of public funds in the operation of passenger railway transport in 2011 and 2012 in the Slovak Railway Company, Plc.** it recommended to the Ministry of Transport, Construction and Regional Development of the Slovak Republic to compile the plans for the transport serviceability in accordance with the §20 of the Act on the Railway Transport, which would form the basis for the assessment of the draft of the traffic time-table; further, to cooperate in creating the quality management system to be adhered by the Slovak Railway Company; deter-

mine the extent of economically justified costs in the annex of the Agreement on the transport services in the public interest, which would be recognized within the fulfilment of the obligation of the carrier in accordance with the § 21, section 14 of the Act on the Railway Transport; to provide the advanced payments only to finance the economically justified costs; to carry out the payment of monthly advanced payments in accordance with the Article No. XXXII, section 3 of the Agreement; to carry out the modifications and addendums of the Agreement only in writing as requested by the Article No. XIV of the Agreement; to include in the plan of the audit activities the inspections focused on the fulfilment of the conditions resulting from the Agreement, not previously subjected to the audit. To the **Slovak Railway Company, Plc.** it recommended to elaborate the analysis for the further procedure for administration of unused administrative premises on the Žabotová and Železničarska streets in Bratislava in terms of the financial profitability; after ending the calendar year, to elaborate the annual report from realized foreign business trips and their contributions; provide for carrying out of independent inspection of the cleanliness and hygiene of the passenger railway transport by the Public Health Office across the Slovak Republic; reconsider the cleaning of trains by means of the subcontractors and to create a comprehensive system of the cleaning of trains, which would include also carrying out of cleaning by own resources when technically feasible.

During the **review of the administration and fulfilment of the measures to increase the efficiency of the operation of the M. R. Štefánik Airport, Plc. for 2011-2012** it recommended to the Airport of the M.R. Štefánik Bratislava to harmonize the organisational standard with the Public Procurement Act in defining the M. R. Štefánik Airport Bratislava as the public contracting authority and to it related issues; to update the internal standard Assurance of the Inventory of Assets and Li-

abilities; to elaborate the internal regulation for the procedure for leasing of immovable assets; harmonize the internal rules in the area of cuts of monthly remunerations of the members of the boards of the company for unexcused absence on the meeting with aim to assure the fulfilment of the provision of the § 194, section 5 of the Commercial Code.

In the audit of activities of the local administration in **control of economy, efficiency and effectiveness of using the public funds and property of the authorities in the local administration during administration, maintenance and renovations of local roads** the SAO SR recommended to the audited entities to create or complement the program budget – to maintain the hierarchical arrangement of the program structure (elaboration of programs, subprograms, items/ projects – their number in terms of the methodology of the Ministry of Finance of the Slovak Republic), to formulate intentions, objectives, measurable indicators, to define responsibilities for individual expenditures, budget programs and allocation of the expenditures of the budget into the program structure; to update the programs of economic and social development, to distinguish the long-term, medium-term and short-term goals, add the intentions and measurable indicators; to elaborate the plan or program of the maintenance and renovation of local roads; to elaborate an internal standard regulating the conditions for the public procurement; to complement the data about local roads so that the relevant data on its variable and fixed parameters would be available; to get acquainted with the following documents, the Technical Conditions 13/2006 – Realization and assessment of detailed visual inspections of asphalt pavements, the Guideline USM 1/2012, the Technical Regulation TP 08/2011 the catalogue of the technologies for the repairs of the basic types of defects of roads; to elaborate the conception of the development of cycling.

SUMMARY OF AUDIT FINDINGS AND RECOMMEN- DATIONS FOR CORRECTING THE DEFICIENCIES

SCIENCE, RESEARCH / EDUCATION

The review of the efficiency and effectiveness of spending of funds from the State Budget for the preparedness and employment of the graduates of selected high schools on the labour market and of fulfilment of the selected indicators of management, teaching and educational process found that the sources of information of the Office of Labour, Social Affairs and Family of the Ministry of Education, Science, Research and Sport of the Slovak Republic (MESRS SR) and of the Institute of Information and Prognosis of Education are incompatible due to different definitions of the term graduate. The incompatibility and incorrect conclusions of different reporting of graduates were caused also by other factors, such as the age of the graduate, the form of studies, whether the graduate had worked, etc. Due to these facts, the different data were found in reporting of graduates in the case of 20 secondary schools, where the inspections were carried out.

The audit further found that the system of allocation of funds at the level of secondary schools does not reflect objectively the required number of classes, but only the number of pupils. It disregards also the incorporation of the graduates on the labour market. The efficiency of the utilization of the premises

continually decreased in several controlled entities with a decreasing number of students during school years in the audited period. There was no adjustment of the funds in relation to decreased number of students during school year presented to the audit of the SAO SR.

The link between the labour market and the education was insufficient; even though the objective contained in the program 078 the National Program of Training, Education and Youth regarding the assurance of the degree of education was met in the part of adequate qualification skills, which significantly influence the incorporation of graduates on the labour market, it did not bring an expected result. The MESRS SR did not have available information on the incorporation of graduates in the labour market according to their education level due to missing link between the requirements of the labour market and the supply side.

The audit found also that the discrepancy between the offer of qualification skills and the demand on the labour market on the required qualification skills was not addressed by applying the suitable and effective measures. The review, whether the schools evaluated the incorporation of their graduates on the labour market, showed that the schools

could not obtain relevant data, since the students have no legal obligation to inform the secondary school about the entering the job or starting the university studies.

Among the most frequent deficiencies found during the audit of the administration of the property owned by the corresponding autonomous regions, which was assigned to them for fulfilment of their activities were for example: accounting items not booked in the period to which they were time-related; inventory reports failing to meet all conditions; incorrectly concluded contracts; provided bonuses with no written justification of the proposal for their provision; the leasing contracts not applying the leasing rates valid at the time of their conclusion; for one period the pecuniary contract was missing; not all contracts and invoices were published on corresponding web sites; the invoices were missing the signature of the person responsible for their booking; the agreements on the material responsibility were not concluded in accordance with the Labour Code; the modification of incorrect data in the deed was missing; the property assigned to school was provided for further use free of charge; renting of premises of the schools was not approved by the corresponding regional government; the classification of expenditures according to the budget classification was not correct; there was the part of immovable property missing under the sub-account Construction.

During the audit of efficiency and effectiveness of spending of funds from the state budget for the preparedness and incorporation of the graduates of selected universities on the labour market and of the fulfilment of selected indicators of economy, teaching and education process the SAO SR review in total 42,210 graduates of the 1st and the 2nd grade and combined the 1st and the 2nd grade of university education in 870 study programs on 10 public universities for the academ-

ic year 2010/2011 and 2011/2012. In the same period, the share of total unemployed graduates was 2.7% according to the methodology of the analysis, however, it was 15.3% according to the findings of the audit; the methodology of funding system has a defined coefficient of the employment of the graduates, but it is not sufficiently considered and especially the provision of the subsidies is based on the number of students and other criteria are considered only marginally.

In academic years 2010/2011 and 2011/2012, there were 6.359 (15,3%) of the graduates failing to enter the labour market, which with the average value of normative costs for the graduate of the university in the amount of 8.750 EUR (1.750 EUR/year x 5) leads to short-term inefficiency of spent funds from the State Budget in the amount of 55.570.000 EUR. There is not sufficient correlation between the needs of the labour market and the preparedness of the graduates with the overproduction of the graduates unemployable in the studied professional area. The data provided from the Social Insurance Agency confirmed that the part of the graduates was incorporated in different professions or other employers than their original studied areas.

The audit detected also that the approach of audited entities to presenting their graduates differed a lot. While some schools did not even report the cooperation with the associations of employers, the others were successful in cooperation with the practice in preparing the students for entry to the labour market.

At the level of subsidies from the State Budget, there were no quantifiable objectives specified by the Ministry regarding the incorporation of graduates in the labour market. The current mechanism for the distribution of funds from the State Budget for each public university is only partly dependent on the success of the graduates on the labour market.

The audit of economic management and of accounting and financial reports in relation to the reported results of operations in selected universities for 2012 was carried out in three public universities.

The most frequently found deficiencies were related to the incorrect classification of costs; failure to carry out the interim financial audit correctly or completely; budgetary classification; failure to use the public funds only to cover the essential needs; failure to provide the operative evidence on the budgetary measures; unmet rule of less than 50% production costs covered by sales; discrepancy in reported amount of payables between the balance sheet and the notes; failure to require the contractual penalties for delayed periods by the renter in the case of rent agreements; non-compliance with the contractual terms agreed in rent agreements including the addendums; carrying out the inventory review.

The deficiencies were detected also in the area of public procurement. The tender documents were not always generally available; the principle of non-discrimination of tenderers or applicants was not respected; the contracting authority was asking the tenderers to submit the affidavit beyond the law. The documents from the public procurement process as from its preparation until the realization itself were not present in the documentation and the result from the evaluation of the offers was not notified without delay to the successful tenderer. The legal services and the services for the public procurement were not contracted by means of the public procurement in the case of sub-threshold contracts. During the inventory audit of the treasuries, the Slovak Technical University Bratislava failed to transfer the financial balances to the 31st December 2011 and 31st December 2012 to corresponding accounts in the State Treasury, thus acting in the contradiction with the State Treasury Act.

In the administration of the state property, the ad-

ministrators of the claim of the state did not act in the way leading to the timely and due application and recovery of the interests and fees from late payments in the case of debtors being late with payment of pecuniary debts. In the area of the disposal with the property, the controlled entities did not act in accordance with the provisions of the Act on the Management of the Property of Public Law Institutions by issuing the invoices for the contracts on the rent of the redundant property later than specified in the contract, hence failing to recover the interests from the late payments.

The audit of spending of public funds, administration of the State property and audit of the implementation of measures in the Police Academy in Bratislava.

The most serious deficiencies were detected in failed compliance with the procedures and principles of efficiency in procurement. It was found that during the realization of sub-threshold contracts, the general purchase contracts were concluded in the contradiction with the offer submitted by the successful tenderer. At the same time, there were inefficiently spent funds detected on the basis of higher agreed prices of some articles. The Public Procurement Act was also breached by splitting the subject of the procurement.

The audit also found signing of the addendum to unjustified increase of prices of supplied goods, invoicing in other measurement units than agreed, payment of the invoice for the author supervision despite the fact that the construction had not been realized and payment of the invoice for the provision of documents that were not supplied until the moment of its payment. The paid amount was actually advanced payment, which was not contractually agreed.

The incorrect classification of expenditures in audited period caused incorrect data reported in the financial report on the fulfilment of the budget of

the public administration in corresponding items, by which the Police Academy acted in the contradiction to valid budgetary classification and thus also in conflict with Act on the Budgetary Rules of the Public Administration.

At the same time, the Act on Accounting was breached during an investment action, as the provision of the project documentation, document for the application for the building permit and the mentioned supervision were booked into costs, hence causing the property being incorrectly valued after the termination of the investment action and depreciated in incorrect amount. In addition, the property that should be added the value by means of this investment action was not reported in the accounting.

In two cases, there was the damage created to the Police Academy, which according to the submitted documents was not reported, solved nor booked as the damage. In assessing the technical status of 17 pieces of decommissioned equipment, the economic efficiency was not maintained according to the Act on Budgetary Rules for the Public Administration. At the same time, the Act on Financial Control and Internal Audit was breached, because during neither preliminary nor regular audits there were not any discrepancies detected in the order and realization of the expert's opinion to the property in question.

And the audited entity also failed to act in accordance with the Act on the Administration of the State Property, since the submitted documents did not permit to find out, which equipment was decommissioned by the decision of being unfit for use and liquidation of movable property of the State. The controlled entity also failed to proceed in accordance with the Act on the Administration of the State Property, as some properties were not registered in the land register. The controlled entity violated the Act on the Administration of the State Property also

in the case of the possibility to prolong the renting of the part of the property after five-year contractual rent as well as by using the property without concluding any contractual relation.

During the audit of rental contracts, the uneconomic acting according to the Act on the Budgetary Rules of the Public Administration was detected committed by the realization of the separate tender, which was not necessary.

In some contracts, the Police Academy failed to proceed in accordance with the Civil Code according to which it is the obligation of the parties to take care to remove in contractual relations all aspects that might lead to generation of disputes.

The SAO SR during audits in the area of education recommended

several corrective measures, such as: to create a regulatory mechanism for financing the higher education so that the provision of subsidies is carried out according to the needs of labour market; arrange the employers to submit not only the numbers but also the area of studies when submitting the reports on the employment for the central authorities; on the basis of relevant data from the Social Insurance Agency or other authorities to increase the weight of the coefficient of the incorporation of graduates on Slovak labour market; to seek for the possibilities of financing of public schools according to the profile of the graduate, it means his knowledge, competences, integration into the labour market, etc.; in the conditions of the Ministry of Education, Science, Research and Sport of the Slovak Republic and public universities in the cooperation with the Social Insurance Agency and Ministry of Labour, Social Affairs and Family of the Slovak Republic adopt necessary tools for assuring the availability of actual and reliable data in order to be able to monitor the incorporation of graduates in the labour market.

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS FOR CORRECTING THE DEFICIENCIES

EFFECTIVE PUBLIC ADMINISTRATION

On 31st December, 2012, there was the inspection of assuring of the efficiency and effectiveness of the realization of the unification of collection of taxes, duties and insurances through the program UNITAS carried out in the Ministry of Finance of the Slovak Republic and in the Financial Directorate of the Slovak Republic. Testing of the functionality of a reformed information system RDS in the tax office Bratislava and of the tax portal of the Financial Directorate of the Slovak Republic showed some weak points in the area of the administration of taxes, tax control and tax execution; some of identified weak points will be eliminated only during the development of new information system of the financial administration on the basis of adopted measure of the Financial Directorate of the Slovak Republic.

The SAO SR evaluated the effectiveness of the realization of the program UNITAS on the basis of the measurement of administrative costs of taxing according to the methodology of the OECD and the decomposition of the indicator of the efficiency of collection of value added tax according to the methodology of the Financial Policy Institute of the Ministry of Finance with the following result:

- the share of recalculated administrative costs on total tax collection in the financial administration increased in 2012 year to year by only 0.08 percentage point to 1.66 %, which was related mainly to improved collection of the VAT tax and of excise duties in the customs services and at the same time, with a significant decrease of common expenditures, especially in salaries due to reduction of the number of customs officers;
- the tax administration affected the evolution of the share of recalculated administrative costs on the total tax collection in 2012 negatively; this share increased year to year by 0.86 percentage point even up to 2.64%, which was mainly due to the increase of the expenditures related to unsuccessful implementation of the information system KONS and subsequent implementation and continuous upgrade of the original information system RDS;
- among the individual types of taxes, the most important share of recalculated administrative costs of the financial administration on their collection in 2012 had the value added tax on the level of 42.22%, which was by 3.58 percentage points less than in 2011; This share increased in 2012 from year to year the most in the case of the income tax of individuals from employment

by 1.48 percentage point to 17.30% and in the case of income tax of natural entities by 1.39 percentage points to 17.25%;

- the indicator of the efficiency of the collection of the value added tax in 2012 decreased from year to year by about 7.41 percentage point to 51.54%, which was related not only to a significant decreases of payments of tax liabilities, but also for example to year to year increase of excessive deductions by 175.02 million EUR to 6,416.01 million EUR, which according to the SAO SR was connected mainly with the increase of export of goods and services, then with the issue of information technologies during transfer of the financial administration to the new information system KONS and finally with not sufficiently effective tools in the area of the elimination of tax evasion and frauds;
- in the tax administration, among the individual items of the collection of the value added tax, the highest share in 2012 was represented by the tax liability itself 99.16%; However, in the case of tax liability resulting from the tax audit it was only 0.08% and in the case of penalties only 0.10%;
- the effectiveness of the collection of the tax liabilities itself in the case of value added tax measured by the share of paid tax liabilities (7,960,266 thousands EUR) on the prescription from submitted tax declarations (8,046,589 thousands EUR) in 2012 decreased year to year by 0.18 percentage point to the level of 98.93%; However, this indicator based on the analytical evidence of the State income does not include depreciations of tax arrears, which either became extinct or were transferred to the Slovak Consolidation Company, Plc. In 2010 to 2012 value of these arrears amounted to 440.6 thousands EUR and the exact value for 2012 could not be determined from the information system RDS;

- the effectiveness of the collection of the value added tax resulting from the tax audit measured by the share of paid tax liabilities (6,052 thousands EUR) on the prescription of this way levied tax (169,962 thousands EUR), including the tax determined according to help tools decreased in 2012 year to year by 1.0 percentage point to 3.40%; this indicator reflected low level of successful collection of value added tax additionally levied by the financial administration, which was according to the SAO SR connected with the realization of tax audits mainly at the tax-risky entities; namely at the taxpayers with a secondary insolvency, insufficient level of the property or entities failing to meet the tax liabilities, etc., as well as the taxpayers involved in chain or carousel frauds;

- the effectiveness of the collection of penalties on the value added tax imposed by the tax administration measured by the share of the paid value added tax on the imposed sanctions (8,368 thousands EUR) on the prescription of imposed sanctions (62,297 thousands EUR), including the write-off of sanctions due to their expiry (33,556 thousands EUR) in 2012 increased year to year by 5.3 percentage point to 13.43%; Despite the year to year increase of the efficiency, according to SAO SR this indicator continues to reflect especially an intentional avoidance of paying the sanctions as well as lower percentage of their recovery by corrective means by the tax administrator and this mainly due to the insufficient level of the property of the tax entity.

Mapping of processes related to the collection of the value added tax, defining of relevant quantitative and qualitative indicators and their implementation in the new IS of the financial administration will create prerequisites for the execution of process analysis at all levels of the management and thus also improvement of the risk management in the financial administration.

The SR SAO evaluated the effectiveness of the realization of the program UNITAS on the basis of the decomposition of the indicator of the simplicity of paying the taxes and insurance contributions according to the methodology of the company PricewaterhouseCoopers and the World Bank and the decomposition of the indicator of the tax quota II according to the methodology of the European Commission:

- according to the indicator of simplicity of paying the taxes and insurance contributions, Slovakia ranked at 100th place in 2011 out of the 185 evaluated countries, which compared to 2010 represented improvement by 29 places due to decreasing the number of payments and insurance contributions, shortening the time for fulfilling the tax-contribution liabilities and reduction of the proportion of taxes and social security contributions on the gross profit;
- the number of payments of taxes and social security contributions decreased in average by 11 payments to 20 payments in 2011;
- the time spent to meet the tax-contributions liabilities shortened in the average by 24 hours to 207 hours in 2011, which reflects the number of hours per year needed to prepare, submit and pay the liabilities related to tax agenda;

The share of taxes and social security contributions on the gross profit, it means recalculated total tax and contributions rate decreased by 0.9 percentage point to 47.90% in 2011. According to the SAO SR, this indicator reflected positively above all the year to year decline of the recalculated total rate in the case of the corporate income tax and the tax on mineral oils.

According to the indicator of tax quota II of Slovakia for 2011, the tax-contribution burden with its level of 28.70% of the gross national product was by 11.6 percentage point lower than the average of EU member states, where it reaches the level

of 40.3%. The indicator of the tax quota II of Slovakia for 2011 reflects basic characteristics of its tax-contribution system, in particular low level of environmental taxes, low taxation of capital and real estate, average tax burden on labour and relatively high excise duties, whereby it is necessary to consider also inefficient collection of taxes due to various forms of avoidance of tax and contributions liabilities.

In the area of the State Budget incomes, the SR SAO highlighted the missing 682.0 million EUR on the side of tax and levy incomes. The major contribution to this deficit comes from the value added tax (389.0 million EUR), corporate income tax (171.0 million EUR) and excise taxes (99.0 million EUR). For declining volume of income to the State Budget mainly caused by deepening of various forms of tax evasion and frauds, when these are one of the highest in the EU, the SR SAO pointed out the necessity to eliminate the losses in income especially in the case of the value added tax.

The audit of the effectiveness of the system for fighting the tax evasion and frauds on VAT was carried out in the Financial Directorate of the Slovak Republic with the focus to timeliness of acting of financial authorities in their detection, especially in the area of the implementation of possible measures for the prevention of tax evasion and to review the effectiveness of the cooperation of customs and tax authorities of the Financial Directorate of the Slovak Republic regarding the cross-border frauds on VAT. The audited period was the year 2012 and the 1st half of 2013.

The current information system of the financial administration does not completely correspond to the requirements and expectations that are placed on an effective system of combating the tax evasion and in some cases it neither does correspond to the requirement resulting to the financial administration from the implementation

of corrective measures adopted by the action plan for combating the tax evasion.

The database, which must be monitored in order to evaluate the effectiveness of taken corrective measures on the basis of their results from practical application, has no assurance of the support of generating the data from the information system of the financial administration. The data are monitored only on the basis of manual evidence kept by employees of the tax administrator, which may result in incomplete or untrue information on facts presenting the scope and impact of the efficiency of the goal of the correction action on the basis of the results from the practical application.

The tax administrator is missing the indicator, according to which he could clearly identify or authenticate the applicant applying for the registration in the Commercial Register, which is also eliminating the effectiveness of the intention of the corrective action taken by the action plan on combating the frauds in this area.

The measure related to the implementation of the obligation to pay the financial deposit by risky entities to be registered for the VAT was legislated in the manner, which is based on assessing the data, which the financial administration actually cannot obtain nor update.

The international exchange of information is systematically malfunction after the modification of the organisation structure of the tax administration due to malfunction of the application software in the information system of the financial administration, which used to provide for the direct communication with the tax authority. Apart from it, the administrative burden of international information exchange is excessively increasing and slows down a fluent processing of continuously increasing agenda in the area of the international data exchange assured by the financial administration. The international information interchange

is used by the tax administrators especially when checking the legitimacy of the claim for the refund of excess VAT, which is declared also by the fact that in 2012, out of the 7,587 claims, there were only 6.3% related to direct taxes.

A huge amount of information received within the automatic information exchange is not even processed by the financial administration due to large volume of such data and lack of technical support of that agenda.

The Financial Directorate of the Slovak Republic receives a large amount of information in the area of direct taxes (on the income of Slovak foreign entities), so called automatic information. These data are processed manually without the support of information system. And yet, these are information supposed to have a positive impact on the state budget in the form of additional levies. With manual processing it also appears to be problematic to provide current and relevant statistical information to European Commission and OECD.

The financial administration, which is expected to reveal and combat effectively the VAT tax frauds, is able to audit in average 6% of all VAT payers annually. During the SAO SR audit, it did not dispose with effective automated tools through which it could "from the table" verify whether the data presented in the tax declarations are correct. There were absent the information on specific business partners of taxpayers and on partial taxable transactions in order to carry out the automated cross-check of taxpayers before returning the excess VAT.

The audit of the management of funds from the budget and the property of the Export-Import Bank of the Slovak Republic in 2011 – 1st half of 2013 was focused to review the process of procurement of goods, works and services under the Public Procurement Act, corresponding sections of the budget and spending of costs for the operation and ad-

ministration with aim to review the major items, property management and evaluation of an internal audit system of the SR Eximbank.

The audit of the process of procurement of goods, works and services showed deficiencies in public procurement realization for the above threshold contract related to "Replacement, complementation of functionalities and optimization of the operational costs of information systems of the Eximbank SR" with the contractual price of 1,587 thousands EUR inclusive VAT as well as in audited contracts with low value for consultancy services, tenders for the e-auction and preparation of the above threshold contract; during realization of the public procurement, the Eximbank SR failed to proceed in accordance with the corresponding provisions of the Public Procurement Act, it violated the principles of public procurement and the internal standard as well.

When spending the funds for the promotion, entertainment expenses and advertising it did not act in accordance with the internal guideline mainly by failing to confirm the expenses by relevant provable documents; the funds for promotion were not always incurred economically and the supplier was provided with advanced payments in value of 100% of the price prior the realization of advertising and promotions services; through the contract on the cooperation in the promotion area, the annual fee was paid for the club cards provided to members of the Board of the Bank for sport and relaxation services.

The deficiencies were found also when spending the funds for education and consultancy services; the procurement of consultancy services was not in compliance with the Public Procurement Act and with the internal directive. The deficiencies were detected also when taking over the results of the work of the advisors. It was detected that the subject to the consulting activities were also areas, which do not fall within the scope of the activity of the Eximbank SR.

In the area of fringe benefits, there was the violation of the corresponding paragraph of the Act on the Social Fund detected by omitting the specification in the Collective Agreement about the method of declaration of expenses of employees for the workforce regeneration.

The audit of spending of funds for hardware and software service and development of the information system of the Eximbank SR found that the Eximbank SR does not have any IT strategy elaborated as one of the most important tools for the support of its activity, which is one of the cause of high costs for IT, its maintenance and development.

The audit of the fulfilment of contractual terms with the supplier of a new bank information system of the Eximbank SR found the deficiencies in the management of the project; Contractually agreed implementation schedule of the mentioned information system was modified several times and the modifications were not incorporated in the contract, but only adopted by the Steering Committee of the project. Works on the project were stopped by the Eximbank SR before the implementation and they continued after the first attempt of the Eximbank SR to terminate the contract. The original deadline for the implementation was moved by the addendum to the contract and already 84% of the price of the work was paid before its implementation. At the date of neither finishing of the audit, nor the new contractual deadline of the implementation of the work was fulfilled.

The Eximbank SR did not assure the security verification of the IS in 2012, thus acting in the contradiction to the Law on the Eximbank SR.

The audit of the justification of spending of funds for external legal services and of the procurement of the information systems in the Slovak Post, Plc. found several deficiencies, which were

mainly related to procurement of external legal services.

The deficiencies were found mainly in non-compliance with contractual terms, in which there the unjustified modifications in the remuneration were carried out, what finally led to the increase of the original agreed remuneration. Some legal representatives were assigned new lawsuits beyond concluded contracts. The audit found that the supplier's invoices for the legal services were paid without demonstrated timing specification. To the uneconomical acting contributed also the procurement of the legal services in the proceedings with a high probability of unsuccessful result, thus creating unnecessary costs for the Slovak Post, Plc. The inspection found cases where there was the tender missing when assigning the above threshold contracts, by which the Slovak Post, Plc. didn't allow the other tenderers from the participation in the tender; it did not keep the complete documentation from the procurement of services in a demonstrable manner and the documents from the procurement were not registered under the registration number.

The audit of public tenders found that in some cases the documents did not contain the method of calculation of estimated value of the contract and in two cases the inspection of the public tender detected unjustified condition for the tenders in the form of requiring the ISO certification - Information System Security Management.

The audit of the efficiency and effectiveness of services provided in the social services facilities for people in a post-productive age in the scope of an autonomous region Banská Bystrica and of two selected cities was carried out in four social facilities for the elderly and in social services homes and in two facilities in the scope of municipalities.

The quality of provided social services in the audited period was specified by the Act on Social Ser-

vices by means of the duties the social services providers were obliged to meet. The quality standards focused directly to work with the beneficiaries of the social service adopted at the national level did not exist at the moment of the realization of the inspection. The satisfaction of the beneficiaries of social services and their relatives with provided services was evaluated on the basis of survey results. The survey was carried out with the assistance of the Faculty of Economics of the Matej Bel University in Banská Bystrica.

The review of necessities and built capacities of social services facilities detected in one case the deficiencies in the foundation document according to the Social Services Act and in reporting of the type of the service, which was not actually carried out by the facility. Other shortcoming resulted from exceeding the total capacities of the facility listed in the registration card, from the discrepancy between the registered capacity of the facility and the decision of the Regional Public Health Institute. The audit detected the need to review on an ongoing basis the lower extents of the dependency for the particular social service so that it corresponds to the real status of the beneficiaries of the social service.

On 31st December 2012, two of the audited entities did not register any candidates on the waiting list for the social services. As per the length of the waiting period for the processing of the application of the applicant, the beneficiaries of social service in the facility for the elderly waited longer than the beneficiaries in the social services home in five from six reviewed cases. There were deficiencies detected in keeping the waiting list of the applicants in one from controlled entities, where the candidates were introduced in the waiting list without a final decision on the extent of the reliance on the social service.

Within assessing the level of efficiency and effectiveness of provided social services it was found that the average monthly payments of the bene-

ficiaries of the social services were higher in audited entities under the scope of municipalities than in the audited facilities under the scope of autonomous regions of Banská Bystrica.

The provisioning of social services and the satisfaction of the beneficiaries of social services and their relatives was evaluated as effective in all reviewed entities.

The audit of spending of funds and disposition with the property in selected urban areas of the Slovakia capital city Bratislava carried out in four municipal entities and in one commercial entity 100% owned by the municipality showed violations of several generally binding legal regulations.

The Act on the Budgetary Rules of Local Administration was violated by failing to elaborate correctly the program budget in one case, it was not monitored during the year, nor it was evaluated in the final account and the budgetary classification was not correctly applied, the evidence of budgetary measures was not complete and in two cases the economic result was not calculated correctly.

The breach of the financial discipline in the amount of 37,000 EUR was found in municipal areas, which provided the subsidies in the contradiction to the conditions set by the generally binding regulation and by the Act on Budgetary Rules of the Public Administration. The inefficiently spent funds in relation to payment of travel expenses, payment for the services resulting from unsound contract and funds used for technical appreciation of the property led to the breach of the financial discipline in the amount of 20,000 EUR. Another breach of the financial discipline according to the Act on Budgetary Rules of the Public Administration was done by providing the advanced payments not agreed in contracts in the amount of 11,000 EUR and by transferring the funds in the amount of 50,000 EUR for four days

to the third party account without specifying the purpose, respectively the need.

Failure to comply with the provisions of the Accounting Act resulted from the incorrect booking, the absence of prescribed data in accounting documents, incorrect evidence of the property and missing documentation regarding the inventory according the mentioned act.

Municipal areas were acting in the contradiction to the Public Procurement Act, when in one case the procedure under the Act failed to be applied, the corresponding documentation was not archived and the compulsory summary report on contracts with low value was not published.

Municipal areas violated the Act on the municipal property by failure to elaborate valid policies for management of assets, discrepancies between the legal and actual state of the property used by primary schools, non-publishing the intention to sale the property in prescribed period, by renting the non-residential premises without a valid contractual relation and non-application of their rights to competent authorities for recovery of claims.

The charters of primary schools were missing the compulsory essentials, thus failing to comply with the Act on State administration in Education and School Self-administration. In two cases, the valid organisational regulations of the municipality failed to be elaborated, thus violating the Act on Municipalities. The documentation from subsequent financial audits carried out by local Chief Comptrollers was elaborated in the contradiction to the Act on the Financial Control and Internal Audit, when it was missing the required items and demonstration of compulsory audit procedures. The Act on the Financial Control and Internal Audit was not respected during carrying out the preliminary financial audit.

The audit of financial management of funds and disposition with the property in the entities of the State administration and local administration on the basis of information, knowledge and recommendations delivered to the SAO SR by involved and competent authorities, the Parliament, Members of Parliaments, public administration authorities, institutions and the public,

which were pointing to the uneconomic management of funds and the property of public administration, but also the incorrect procedures in public procurement or violations of the Act on Free Access to Information was carried out in 33 entities.

The audit found deficiencies in 32 audited entities and only in one case there were no deficiencies found. Of the 33 controlled entities, the 23 violated the Act on Budgetary Rules of Public Administration with a subsequent breach of the financial discipline in the amount of 1,533 thousands EUR. These were the cases of the use of public funds beyond the authorisation, uneconomical, inefficient and ineffective spending of public funds, not respecting the constituted or designated method of use of public funds, use of public funds in the contradiction to the designated purpose or payment of the advanced payment from public funds contrary to this Act.

Another breaches of the Act on Budgetary Rules of the Public Administration, respectively of the Act on the Budgetary Rules of the Local Administration were caused mainly by several entities failing to monitor and evaluate the fulfilment of the programs, not adhering to the budgetary classification and not applying the budgetary measures in the case of modifications of the budget. The funds were often spent before the approval in the budget or without approval. The municipal council was not using sufficiently its competence to control the spending from the budget during the year.

In the area of returnable funds the municipalities violated the Act on the Budgetary Rules of the Public Administration and the Act on the Budgetary Rules of the Local Administration by incorrect reporting of the amount of the debt, using the returnable funds for payments of current expenses and by the Chief Comptroller failing to review the fulfilment of the conditions required for the acceptance of the returnable sources.

Among often identified deficiencies were incorrectly applied budgetary classification and incorrect reporting of the result of budgetary management, which resulted in incorrect creation and spending of the reserve fund. At the same time, it caused the deformation of data reported by the local administration entities within the consolidation of public expenditures.

The Accounting Act, respectively the Order of the Ministry of Finance of the Slovak Republic on the Accounting Procedures were violated by multiple entities failing to meet the prescribed accounting procedures, incorrectly booked accounting cases, not filling out the required data on the accounting documents and failure to carry out the inventory of the property and liabilities. The deficiencies were detected in the inventory summaries and reports, in the financial statements and the annual report and the bookkeeping.

The audits pointed out also many formal shortcomings in the area of recovery of claims, but also the insufficient recovery of claims mainly in the area of the administration of local taxes and local fees, which was reducing the real incomes of municipalities.

The Act on Property of Municipalities, respectively the Act on the Property of Higher Territorial Units was violated by not approving the principles of property management by the Council or their non-compliance with the Law by improper assets management and failure to apply all legal remedies for the protection of their property, not

lodging the claims for arrears during renting the property in quantifying and maturity of the rent, renting the property for unusually low price or price lower than the one set by the generally binding regulation.

The Public Procurement Act was violated by procurement of direct contracts without tendering, by failure to record and archive the tender documentation, not applying the principle of the equal treatment, principle of the non-discrimination of tenderers, the principle of transparency and the principle of efficiency as well as by not setting or incorrect setting the estimated value of the contract.

The Civil Code and the Act on the Free Access to Information was violated by failure to publish the concluded contracts, orders and invoices or were published late, then by failure to publish the information on place, time and manner how to obtain the information, on procedures for processing the applications for information, the dates of meetings, municipal council agenda, meeting minutes and general binding regulations.

The Act on Municipalities and the Act on Financial Control and Internal Audit was violated in cases when the audited entities failed to carry out the preliminary financial audits or did not carry out the financial control before the realization of the financial transaction. The Chief Comptroller did not respect the rules of audit activities, failed to elaborate and submit to the Council the expert opinion to the draft of the Budget, respectively to the final account draft, did not submit the plan of control activities for the approval to the Municipal Council, did not submit the reports on the results of audit, respectively annual reports on audit activities in prescribed deadline.

The audit of the compliance with the generally binding regulations in the management of public funds and management of the property in towns, which are not the seat of the district,

in urban areas and municipalities with the number of citizens more than 3,000 was carried out in total in 13 entities of the local administration, including 6 cities, 5 villages and 2 town areas of the City of Košice. The audit detected several breaches of the Act on the Financial Control and the Internal Audit and the Act on Municipalities. The internal controlling system was evaluated in 5 cases as good, in 4 as appropriate and in 4 cases as weak.

The audit showed the breach of the Act on Budgetary Rules of the Local Administration, Act on the Budgetary Rules of the Public Administration, Act on the Accounting and related regulations, Act on Public Procurement, Act on Municipalities, Act on the Property of Municipalities and Act on the Free Access to Information. The most common deficiencies were found in the classification of expenditures in the budgetary classification, compliance with prescribed accounting procedures and in bookkeeping.

The audit showed also breaches of the financial discipline according to the Act on the Budgetary Rules of the Public Administration due to uneconomical, inefficient and ineffective spending of funds in the total amount of 56,000 EUR, non-compliance with the prescribed or indented purpose of management of public funds in the total amount of 27,000 EUR, providing the advanced payments without contractual basis in the total amount of 8,000 EUR and using the funds beyond the authorisation and concluded contract in the amount of 1,000 EUR.

The audit of the debt policy of selected municipalities and villages was carried out in 15 entities (municipalities) representing 0.5% of the total number of municipalities in the Slovak Republic; it was focused mainly to the status and the evolution of the debt of selected entities of the local administration and its impact on their economic performance and the ability to pay their debts.

The municipalities were not respecting multiple general binding regulations when receiving, using and reporting the returnable funds in accounting and financial reports. The breaches were detected in the area of respecting the budgetary rules for using the returnable funds by the deficiencies related to the correctness of reporting of the economic result in the final account in 4 municipalities or by the failure to elaborate the final accounts at all.

In 11 municipalities the final accounts did not contain complete or sufficient data on the status of the evaluation of the debt and 8 municipalities failed to meet obligations required to receive the returnable funds to 31st December of the corresponding year and this mainly by not reporting the liabilities from the returnable funds received for the financing of the common programs of the Slovak Republic and the European Union. These deficiencies had an impact to the correctness of reported data on the indebtedness of the local administration for the users of these reports processed by the Data Centre.

The compliance with the conditions for receiving the returnable funds was not review by the Chief Comptrollers in five villages and in one village the Chief Comptroller confirmed the fulfilment of the conditions despite the fact that the municipality failed to meet them. Four villages used the returnable funds for payments of current expenses and they did not return them till the end of the financial year from the surplus of the current account and four villages reported the payables overdue of more than 60 days and one village violated the law by exceeding the legally prescribed share of these payables and current income from the previous year, thus creating the condition for imposing the receivership.

Failure to meet the other binding legal regulations resulted from the loan provided by an individual without approval by the municipal council, not publishing the contracts related to the return-

able funds, which was in the contradiction to the Act on Free Access to Information and the Civil Code.

The review of accuracy of selected accounts of liabilities and of correctness of accounting operations detected the violation of the Accounting Act by several audited municipalities failing to comply with the accounting procedures in booking the cases related to the returnable financial sources in the total amount of 2,082 thousands EUR, failing to carry out the inventory of payables related to the returnable funds, failure to apply correctly or not applying at all the budgetary economical classification in the case of income and expenses related to the returnable funds in the total amount of 2,661 thousands EUR.

The audit of the correctness of reporting of returnable funds in the financial statements and in financial reports showed the acting of audited entities in conflict with the Act on Accountancy by some municipalities failing to prepare the complete financial statements or missing the deadline, not having the financial statements verified by the auditor or failing to elaborate the annual report. In all controlled entities, there were the deficiencies found related to correct reporting of returnable funds in the balance sheet and in 3 of the controlled entities significantly influenced the correctness of the amount of returnable funds. Six municipalities failed to report the correct information in the financial statement on the fulfilment of the budget of the public administration regarding the current revenues, current expenditures, income financial transactions and expenditures financial transaction. Four municipalities fail to report correct data in the financial statement on credits, issues bonds, bank notes and financial rent of the subject of the public administration to 31st December, 2011 a 6 municipalities to 31st December, 2012. Two municipalities failed to report correct data in the financial statement on the gains and losses of selected receivable and liabilities of the subject of the public administra-

tion to 31st December, 2011 and 1 municipality to 31st December, 2012.

Nine municipalities reported in the contradiction to reality zero values, which significantly influenced information for the calculation of the debt and fulfilment of the conditions for reception of returnable funding sources.

The debt of the municipalities in total, calculated according to the budgetary rules, had a decreasing trend in the audited period and it decreased by 8.09% in 2012 comparing to 2010. This trend was reported in 60.00% of municipalities and for another 20.00% of municipalities it had contrary upwards trend; 13.33% of municipalities had a zero debt and 1 had no change during the whole audited period.

The debt of municipalities in total according to the financial statement on credits, issued bonds, bank notes and financial leasing of the subjects of the public administration had an increasing tendency and increased by 11.74% in 2012 comparing to 2010. This tendency was observed in the case of 46.67% audited municipalities and on the contrary in the case of 53.33% it had a downward trend.

The SR SAO supports the implementation of the "debt brake" for entities of the local administration already in the case of exceeding the 50 % share of the debt on actual current income from the previous year, because of the risks in achieving the current income, part of which is formed also by incomes for the transferred obligations of the state administration and reporting of long-term liabilities not included in the debt of the municipality according to the budgetary rules. Should the debt of the municipality exceed 50% of real current income for the previous budgetary year, the municipality has already only very limited management in the area of expenditures and if the loss in the stable income occurs (shared taxes and local taxes) the legal limit of 60% becomes exceeded very easily.

The audit of respecting the generally binding legal regulations in spending of public funds and management of the property, including the review of follow up of the previous inspection in the district towns was carried out in 16 district towns.

The results of the inspection showed breaches of several generally binding legal regulations in controlled areas. In the budgeting process it showed the breach of the Act on the budgetary rules of the local administrations, when compiled budgets in 8 controlled entities failed to contain intentions and goals, which should be realized by the cities, income and expenditures contained incorrectly also financial operations, the budgetary classification was not correctly applied, the subsidies to legal and natural persons were not budgeted for particular action, task or purpose.

In 5 cities, after approving the budget, its decomposition to budgetary and contributory organisations within their scope was missing and the breakdowns of costs were not assigned to the programs.

Other deficiencies resulted from not tracking the economical management, failing to carry out the modifications of the budget in prescribed manner or by a competent authority of the municipality and from using the budgetary funds for purposes not approved in the budget, failure to monitor the fulfilment of the programs of the town and absence of data on the fulfilment of the budget in the final account. Ten cities failed to apply correctly the budgetary classification for current and capital expenditures.

There was the breach of the financial discipline detected in the total amount of 1,189 thousands EUR in 12 controlled entities. The financial discipline was breached mainly by uneconomical use of funds, providing the advanced payments in the contradiction to the Law, providing the public funds beyond the authorisation, what led to overspending of public funds, failing to comply

with specified or prescribed purpose of spending of public funds, exceeding the scope of the authorisation for the acceptance of the liabilities, which were not planned in the budget for the current year and that debited following financial years, non-compliance with the rules and conditions under which the public funds were provided, breach of rules and conditions for providing the public funds. Other deficiencies in the in the area of management of public funds were found in 10 cities in application of the budgetary classification of current and capital expenditures in the total amount of 1,935 thousands EUR. Several breaches were found in providing the subsidies from budgets to legal and natural entities – entrepreneurs of individual cities.

The audit of correctness of funding, eligibility and reasonableness in spending of public funds found breaches of other generally binding legal regulations, namely the Construction Act, Act on the Property of Municipalities, Act on Municipalities, Act on Income Tax, Civil Code, Act on Local Taxes and Local Fees for Communal Waste, Labour Code and Act on Authorised Architects and Authorised Civil Engineers. Not publishing the documents on the Internet pages of the cities resulted in acting in the contradiction with the Act on the Free Access to Information.

In the area of accounting, the audited entities failed to respect the binding accounting procedures and the obligation to keep accounts correct, complete and verifiable. Also the incorrect pricing, classification, evidence and inventory of property were found.

The deficiencies in assignation of contracts for supplies of goods, services and realization of construction works were found in 12 controlled cities, thus violating the Public Procurement Act. The review of the public procurement procedures showed in 2 cities the violation of the Civil Code caused by the incorrect specification of the effectiveness of the contract.

By the review of financing of primary schools in the scope of individual towns, there were deficiencies found in two cities in foundation letters, thus violating the Act on the State Administration in Education and School Administration. Violations of Act on Funding the Primary Schools, Secondary Schools and School Facilities were found in 5 of audited entities and they were related to non-compliance with procedures for the breakdown of normative funding prescribed by law.

In property management mainly the deficiencies were found in non-compliance with the obligations under the Act on the Property of Municipalities. The entities did not make the correct bookkeeping of the property in the accounting, failed to meet the requirement to cultivate, protect and to increase the value of the municipal property. In some cases, they did not use all legal means to protect the property, including the timely claiming their rights or justified interests to the competent authorities. Other breaches of generally binding legal regulations resulted from the review of the documentation from the regular inventory of the property and liabilities, the difference between the property and liabilities, from reviewing the transfers of property, renting the property, management of receivables and control of managing taxes. In addition to formal deficiencies in the contracts on transfers, sale or renting the property, the frequent deficiency was the failure to apply the legal rights mainly in renting the property, when controlled entities did not modify the rent rate for example by the inflation index, despite the fact that such modifications of the renting rate were justified on the basis of contracts.

In the evaluation of internal audit system, there were deficiencies found mainly in the processes of verification of prepared financial transaction by preliminary financial control, which resulted in the breach of the Act on the Financial Control and the Internal Audit. The realization of preliminary financial control was only formal in several

of the controlled entities. In 6 controlled entities the deficiencies were found in fulfilling the obligations of the Chief Comptrollers of the individual cities resulting from the Act on Municipalities and from the realization of the control activities according to the Act on the Financial Control and the Internal audit. For example, the documentation from the inspections and reports from carried out inspections did not contain the required items according to the Act on the Financial Control and the Internal Audit and the reports on the results of inspections were not submitted in compliance with the Act on Municipalities.

The review of the fulfilment of 280 measures taken on the basis of the previous audits of the SAO SR showed that there were 224 (80.0%) measures fulfilled, 39 (13.9%) fulfilled partially, 13 (4.6%) unmet and 4 (1.4%) measures could not be assessed, since the circumstances permitting to evaluate their fulfilment did not occur.

The audit of the status of public funds and property in a city which is a regional capital and implementation of measures resulting from previous audits, focused on the audit of observance of generally binding legal regulations when administering public funds and disposing of property including audits of implementation of measures resulting from previous audits, was made in eight regional capitals.

Legitimacy of regular audits with such focus was demonstrated for example in the reduced number of cases of breached financial discipline under Act on Budgetary Rules in Public Administration. In 2013, the total sum of breached financial discipline in audited entities amounted to 141,000 EUR, which was a decrease by 538,000 EUR, i.e. by 73.8% compared to 2009. In a large part, the decrease was achieved thanks to the adoption and implementation of effective measures by audited entities.

Financial discipline was breached due to uneconomic use of funds and provision of advance payments in conflict with Act on Budgetary Rules in Public Administration. There were repeated deficiencies in the course of provision of subsidies to legal and natural entities and this was the area that was evaluated as containing risks. The reason lies in insufficient oversight of accounting for granted subsidies, i.e. audited entities accepted accounting documents in conflict with the contract on provision of funds or in conflict with the generally binding regulation governing the provision of subsidies.

In the budgetary year 2012, audited entities were continuously making budget modifications by means of budgetary measures, based on their observations of administrative developments. Administration of public funds was continuously audited by the regional capitals. Verification of income earning and drawing on expenses revealed that when spending expenses, regional capitals did not exceed the level of their income, i.e. total amount of expenses per controlled entities amounted to 98.06% of their actual income.

The audit of compliance to generally binding legal regulations revealed incorrect application of budgetary classification. In the accounting area, controlled entities most frequently failed to observe binding accounting procedures with subsequent breach of Act on Accounting.

Most shortcomings (32) occurred in connection with the observance of public procurement procedures. One of the most serious was splitting the tender in the course of reconstruction works and signing contracts in conflict with tender documents and submitted proposals.

In case of property disposition, the shortcomings consisted in particular of failure to meet obligations resulting from Act on Municipality Property, with entities incorrectly accounting for their property and failing to meet the obligation to protect

the property and increase its value. In some cases, they also failed to use all legal means for its protection, including timely exercise of their rights or legitimate interests before competent authorities.

Audited entities had effective audit systems and suitable organizational, financial, personnel and material background for their independent performance. In spite of that, the results of the audits revealed that not all areas were sufficiently covered by internal controls.

Examination of the meeting of 67 measures adopted based on previous audits by the SAO SR revealed that 57 measures (85%) had been implemented or implemented on a continuous basis, seven measures (10%) had been implemented partially, one measure had not been implemented and in two cases the conditions for evaluation did not occur.

The audit of the administration of public funds and disposition of the property in the possession of local administration in municipalities with less than 1,000 inhabitants was made in six municipalities of the Žilina Region, with focus on the municipal budget, result of budgetary administration, with special focus on the municipality indebtedness status, observance of generally binding legal regulations when administering public funds and property as well as inspection and evaluation of the municipal system of internal controls.

Inspection of the administration of public funds and property revealed several breaches of generally binding legal regulations. One municipality did not pay sufficient attention to the preparation of its own budget, failing to assign resources for contracted works and repayment of a short-term loan. Two municipalities did not prepare and approve their program budget for 2012. Three municipalities failed to make amendments to their budgets

pursuant to the Act on Budgetary Rules in Local Administration. There were also cases of spending municipalities' own funds beyond approved budget or payments of expenses without their coverage by the budget. One municipality included incorrect data on the amount of capital income from sale of land and amount of expenditures for sickness benefits in case of temporary sickness absence in its financial records. In their budgets, two municipalities failed to define exact services, tasks or events that they intended to support. Findings were also detected with relation to adherence to the valid budgetary classification and accounting procedures, for example, one municipality incorrectly accounted for its obligation resulting from a non-bank loan amounting to 51,000 EUR.

Municipalities failed to publish data on all orders and invoices on their websites. In addition, one municipality failed to publish some contracts which thus, pursuant to valid legislation, did not become valid. Municipalities also failed to publish quarterly summary reports on low-value tenders above 1,000 EUR. Recipients did not document the use of some subsidies at all, with the affected municipality tolerating such failure to meet such a basic obligation. Two municipalities covered expenses using their budgets based on indemonstrable accounting documents. In the area of public procurement, one case of directly assigned tender, totally amounting to 23,000 EUR, was discovered.

Shortcomings were also detected with relation to property recording, valuation and stock-taking. When selling their land, three municipalities failed to proceed in accordance with Act on Municipality Property and the price of land was determined by the municipal council without expert opinions and the intention to sell the municipal property was not published at all. In one municipality there were no principles of property administration and disposition set. The principles of property administration in four other municipalities did not contain all details prescribed by law.

In case of disposition of the property, the shortcomings discovered consisted in particular of failure to meet obligations resulting from Act on Municipality Property, with entities incorrectly accounting for their property and failing to meet the obligation to protect the property and increase its value. In some cases, they also failed to use all legal means for its protection, including timely exercise of their rights or legitimate interests before competent authorities.

The recorded tax arrears were claimed by the municipalities in particular by means of notices which were not always delivered into own hands. In two municipalities serious shortcomings in activities of Chief Comptrollers were detected, resulting from failure of the supervisors to meet their legal obligations.

Audit of the administration of public funds and disposition of State property at selected Regional Prosecutor Offices and Prosecutor General of the SR was performed at the Prosecutor General of the SR and 8 Regional Prosecutor Offices. The inspection revealed conflict between Act on Public Prosecution Service and reality resulting from Act on Budgetary Rules in Public Administration and Act on Accounting. Pursuant to Act on Public Prosecution Service, Regional and District Prosecutor Offices are budgetary organizations, but as a matter of fact, District Prosecutor Offices are prepaid organizations of Regional Prosecutor Offices.

In individual years of the inspected period, the income budget was underestimated, as it was not set even to the level of annually received funds from leasing of real estate in some cases.

In the area of public procurement it was discovered that public procurement procedures under the conditions of the Prosecutor General of the SR and Regional Prosecutor Offices were not regulated by any internal regulation, apart from

the procedure for low-value order from 2006, which included financial limits not applying to the period under inspection. Also with reference to this fact as well as to formal public procurement planning, financial limits defined by Act on Public Procurement were exceeded in several cases. Certain tenders were even completed without using any form of public procurement. The audit also revealed splitting the subject of procurement and failure to observe the principle of transparency with the success of a tenderer who failed to meet the conditions for participation in the tendering. Incorrect procedure, which was in conflict with Act on public procurement, was also applied, as there were cases of executed amendments to invalid contracts. In addition, some Prosecutor Offices breached Act on Public Procurement by failing to prepare a tender report, to set the period for offer validity and to meet the obligation towards the Office for Public Procurement and other obligations resulting from the law.

Breach of Act on Budgetary Rules in Public Administration was detected in case of unauthorized use of State budget funds for supplies which actually were not delivered. With this action, financial discipline was also breached. Financial discipline was also breached by provision of advance payments that were not agreed on in the contract beforehand and were not financially settled until the end of budgetary year either. Act on Budgetary Rules in Public Administration was not observed when parties signed the contract at the time when no funds were secured for the current budgetary year for the purpose of capital expenditure settlement. At several Regional Prosecutor Offices some expenses were assigned to wrong sub-entries. When drawing on funds, some audited entities failed to observe the principle of economic efficiency in term of Act on Budgetary Rules in Public Administration.

Some Prosecutor Offices failed to proceed in accordance with Act on Accounting with invoic-

es booked and paid without the list of jobs performed and there was no record of performed technical appreciation in accounting records. Shortcomings were also detected with relation to stock-taking of property, liabilities and differences between assets and liabilities. Failure to observe Act on Accounting was also discovered in connection with the failure to observe Act on Travel Reimbursement. This Act was breached in particular with failure to issue travel command, making two business trips on a single day, approval of the trip after the trip was over and other incorrect procedures.

Inspection of the status and protection of property revealed non-observance of Act on Administration of Public Property in the form of absence of use of entrusted property for performance of tasks, charging incorrect (lower) accommodation rate, failure to record property and following incorrect procedure when leasing public property. Regional Prosecutor Office in Bratislava leased a building for District Prosecutor Office in Pezinok from a private company for 10 years and comparison of the area of the new leased premises with original premises showed that the area of currently leased office and other premises doubled. Also, the rent for m²/year for the premises was double when compared with the rent in the previously leased premises and due to this the annual rent was almost four times higher than the previous rent. With leasing larger premises, costs of heating and other services associated with the lease also increased. On the other hand, the number of employees at the Regional Prosecutor Office in Pezinok only increased by one third compared with the previous period. The leasing contracts were concluded without being submitted to the Ministry of Finance of the Slovak Republic for approval and they did not include the right to modify the rent based on the percentage of consumer price growth or the level of inflation. Incorrect procedure when discarding useless property was also detected.

In some cases, Regional Prosecutor Offices failed to proceed in accordance with the Civil Code, when during regulation of contractual relationships they did not eliminate all matters that could lead to conflicts.

Following individual findings and breaches of relevant generally binding legal regulations, the continuous financial inspection was not carried out in a sufficient manner in controlled entities which resulted in failure to observe Act on Financial Control and Internal Audit.

The inspection also revealed non-observance of Act on Free Access to Information by failing to publish the framework contract for delivery of goods to the Prosecutor General of the SR, delayed publishing of contracts of the Regional Prosecutor Office in Bratislava and failure to state the total value of ordered performance in case of three published purchase orders of the Regional Prosecutor's Office in Prešov in the Central Register of Contracts.

Audit of the administration of public funds, disposition of State property during implementation of the program "Prison Service" and creation of conditions for implementation of the sub-program "Employment of Convicts in Ancillary Husbandry" was performed at the General Directorate of the Prison and Court Guard Corps (GD PCGC) and in nine remand centres and imprisonment facilities, in the inspected period 2009-2011.

Analysis of employment of convicts within the Prison and Court Guard Corps revealed that the total number of prisoners in 2011 increased by 19.28% compared to 2009 and the percentage of employed prisoners decreased by 7.60%. Convicts who were removed from unemployment records in the inspected period represented approximately 25.00% of the total number of convicts on average, which means that the employ-

ment of convicts within the V4 countries is the highest.

Having taken into account the real costs of imprisonment, in the inspected period, a prisoner contributed to the total daily costs of imprisonment (37.28 EUR on average) only with 0.79 EUR, i.e. 2.10% which means that nearly 98.00% of these costs were covered using the State Budget. (For comparison, in 2009 in the Prison Service of the Czech Republic, this figure, as determined during inspection by the Supreme Audit Office of the Czech Republic, was approximately 1.80%).

In 2010, the average number of visits to healthcare facilities per prisoner at PCGC was 22 visits (which were 3.9-times higher compared to the average number of visits to healthcare facilities per inhabitant of the Slovak Republic) and in 2011, 24 visits (4.5-times more). Although each prisoner has the right to healthcare, increased number of visits to healthcare facilities by prisoners, as compared to the common average in the Slovak Republic, is a significant burden on the budget of the Prison and Court Guard Corps and on the workload of healthcare staff and prison escort officers.

In the inspected period, the capacity of the Prison and Court Guard Corps gradually increased by 2.68%, but the average number of prisoners increased by 19.00%. In 2011, the utilization of accommodation capacity in these institutions was approximately 98.50%; in 2011, the most critical situation was in the imprisonment facility in Hrnčiarovce nad Parnou (117.50%).

Tasks resulting from the prison service concept (establishment of specialized units, imprisonment departments for mothers with children, detention centre) and the needs of the Prison and Court Guard Corps in the area of maintenance and repairs of real estate and investment development, which are closely related to insufficient capacity of the institutions, were insufficiently covered

by the State Budget, resulting in the fact that the construction and technical status of real estate possessed by the State was in conflict with the provisions of Act on State Property Administration.

No facility including the GD PCGC had or currently has its real property insured (except for the mandatory motor vehicle insurance) in terms of Act on Administration of Public Property. As a result of low amount of capital funds assigned from the State Budget, the PCGC had an obsolete fleet of service motor vehicles, the operation of which created condition for uneconomic spending of public funds in conflict with Act on Budgetary Rules. The inspection also revealed that in the inspected period, only one imprisonment facility Želiezovce used the European Economic Area financial mechanism and the Norwegian financial mechanism, namely for the project entitled "Installation of Solar Panels and Modernization of Energy Facilities".

Further shortcomings revealed by the audit related to the Act on Public Procurement. For example, in 2012, the entity implemented one above-limit tender with estimated value of 1,375,000 EUR, VAT not included, with any preliminary notice being published or sent to the relevant authority. Entities breached Act on Public Procurement also in that they did not set the estimated value of the tender and only carried out the market survey after the order had been sent; they accepted tenderers' winning bids which did not contain mandatory tender documents listed in the call for bids; the provided incorrect information to the Office for Public Procurement in conflict with the Decree on Contents and Notices used in public procurement. In case of low-value tenders, one entity committed breach of financial discipline amounting to 131,379.18 EUR by uneconomic actions. Failing to publish two orders for purchase of goods, two entities did not proceed in accordance with Act on Free Access to Information.

Shortcomings were also detected with relation to Act on Accounting. In several cases, balances following settlement of fuel were not stated correctly which was in conflict with Act on Accounting and relevant internal regulation.

Audit of the level of provision of Mountain Rescue Services was performed as parallel inspection, upon agreement between the President of the SAO SR and President of the Supreme Audit Institution of Poland which was made in September 2012 during the V4+2 meeting. Revealed shortcomings were related to public procurement, observance of Act on Budgetary Rules in Public Administration, Act on Financial Control and Internal Audit and with filing financial statements and taking measures to complete the task resulting from the concept.

The audit by the SAO SR revealed that due to lack of funds, the normative for supplementation and alteration of fleet of the Mountain Rescue Services, for modification of the number of officers and employees of the Mountain Rescue Services as part of job systemization or for initiation of the second stage of the project entitled "Interconnection of the Slovak and Polish Geographical Information System of Mountain Rescue".

The audit of central public procurement revealed that in the inspected period, the Ministry of Interior of the Slovak Republic ensured two below-threshold tenders for Mountain Rescue Service Horný Smokovec (hereinafter only referred to as "MRS") by means of electronic auction, one below-threshold tender by means of a public tender procedure and two below-limit tenders by means of a public tender procedure. Audit of submitted documents revealed shortcomings which were related to delayed sending of notices of exclusion to individual tenderers, delayed sending of notices of the results of bid assessment, delayed release of required assurances, failure to send or delayed sending of information on contract conclusion to the Office of Public

Procurement, failure to conclude a contract during the period of offer validity. In one case, the shortcoming was related to different conditions of participation in tender documents and conditions of participation included in the notice of announcement of public procurement. In one case, MRS did not proceed in accordance with Act on Public Procurement, as it accepted a winning bid of a tenderer which did not contain the tenderer's avowal regarding completeness and truthfulness of data in the bid in terms of the invitation to bid.

The audit in the area of administration of public funds and disposition of the property revealed that MRS did not proceed in accordance with Act on Budgetary Rules in Public Administration, when it incorrectly used the economic classification while sorting out expenses and paid for casualty insurance of volunteer rescuers, which was not agreed in the concluded agreements, thus committing a breach of financial discipline. In four agreements concluded by volunteer rescuers, no preliminary financial control had been made, which was not in accordance with Act on Financial Control.

Audit of the MRS's final statements in 2010-2012 revealed that they were submitted after deadlines set in the Measure of the Ministry of Finance of the Slovak Republic. Further, it was found out that balance sheets and profit and loss statements were not submitted using prescribed templates (2010, 2011, and 2012) or were prepared using press reports (2010, 2011) which was not in accordance with the Measure of the Ministry of Finance of the Slovak Republic.

Analysis of the MRS's activity revealed that in the inspected period, rescue activity was performed by professional and volunteer contractual rescuers. There was an increase in the number of rescue interventions performed in mountain areas and ski resorts and while the annual number of interventions increased, the number of deadly accidents exhibited a decreasing trend.

Audit of the observance of generally binding legal regulations while disposing of public funds and State property. Inspection of correct preparation of the final account of the Chapter of Administrator of State Material Reserves of the Slovak Republic for 2012.

As part of this audit, the audit of the construction of a pandemic pavilion in Malacky was carried out as well. The inspection revealed that already from the commencement of construction, there were cases of inaccuracy and overpricing in the contracts, starting from the Institute of Virology at the Slovak Academy of Sciences, namely with prices and quality of implemented studies (e.g. 2,857 EUR/page) and obscurity as to where the construction was to be carried out. It was assumed that it should involve reconstruction and in part construction of the pandemic pavilion in the premises of IMUNA Pharm a. s., Šarišské Michaľany. With the change of the construction location to Malacky, the price increased by 10.7% and the total costs of construction of the pavilion increased to 23,404,388.40 EUR, VAT not included. The construction was conserved at the value of approximately 82,500 EUR, plus costs of guarding amounting to 11,000 EUR a month. Lack of interest from potential operators in further exploitation of the pavilion so that it might serve its original purpose showed that funds amounting to 9,158,153.57 EUR for the purchase of technology were not used in an economic, effective and efficient way.

Audit of administration and protection of assets in the area of information technology in the Industrial Property Office of the Slovak Republic focused on procurement, development and operation of the main production information system INVENTIO, related to the area of industrial and legal protection, development of European patent register, trademarks and designs.

Results of the audit showed serious risks in the area of development of the main IS of the In-

dustrial Property Office of the Slovak Republic. Altogether 42 measures were adopted with relation to the audit findings. In case of one measure, the SR SAO evaluates a significant risk lying in that at the time when a report on completed implementation or ongoing implementation of measures had been submitted, the INVENTIO II information system was not in fully productive operation. Further risks to the implementation of measures resulting from the audit were identified as well.

During audits of public administration effectiveness, the SAO SR recommended several measures, for example:

when **assessing whether effectiveness and efficiency of the status of implementation of harmonized tax collection, customs and insurance contributions via the UNITAS programme as of 31/12/2012 is ensured** at the Ministry of Finance of the Slovak Republic and the Financial Directorate of the Slovak Republic, it recommended:

- in case of value added tax, reducing the space for tax evasion, progressive expanding of the basis of the tax through solving certain existing exceptions and exemptions and increasing the level of management and administration of the tax;
- in case of excise taxes, improving their ability to respond to the market developments, reducing the space for tax evasion with the exception of tax on electricity, coal and natural gas and implementing new environmental taxes;
- in case of natural entity income tax, reducing the tax and contribution burden for low-income employees, removing differences in taxation of individual types of employment and finally solve the problems with accounting of property used for personal and business purposes in case of self-employed persons;

- in case of legal entity income tax, adopting measures for narrowing the space for continuing increase in the motivation to optimize the tax base;
- in case of real estate tax, improving flexibility of certain rates, taking into account economic developments, exclusivity, damage to the environment, etc.;
- in case of mandatory contributions for social and health insurance, narrowing the space for declaration of various deductible items and lowering administrative costs in health insurance by a merger of the three insurance companies into a single insurance company.

When **assessing the effectiveness of the system for prevention of tax evasion and VAT fraud** at the Financial Directorate of the Slovak Republic, it recommended taking further measures of operational nature within the system for prevention of tax evasion and VAT fraud, in particular in improvement of the effectiveness of processes associated with the elimination of VAT tax evasion, with continuous monitoring of measurements of their efficiency and effectiveness, in particular in terms of the impact on the State budget and with the help of a sophisticated information system. At the same time, it recommended further participation in the proposals and reasonable measures of legislative nature, which will ensure legislative support for agreed intentions within the system for prevention of tax evasion and fraud.

When **assessing the administration of budget funds and the property of Export-Import Bank of the Slovak Republic**, it recommended: elaborating and adopting an IT strategy in order to increase effectiveness of the activities of the Export-Import Bank of the Slovak Republic through lowering the costs of information technologies; when concluding service contracts for teaching foreign languages, clearly specifying the contractual terms and conditions; improving effec-

tiveness of the internal control system, in particular controls by executive officers; implementing the obligation to keep operational records of more valuable promotional items in the internal instruction.

When assessing the area of effective public administration following the audit of effectiveness and efficiency of **services provided in social care facilities for people in post-production age in the scope of the self-governing region of Banská Bystrica and two selected towns**, it recommended making the capacity of social care facilities more real in case of individual types of services; paying more attention to human resource policy in individual facilities, as it has direct impact on the quality of services and administration of facilities; re-assessing lower levels of dependency of recipients of a social service in case of impairment of their health condition and reclassifying them to higher levels as necessary, however, at least once in every three years; in order to improve overall security of a recipient of a social service as well as for legal protection of the facility against potential insurance and other adverse events, implementing, in cooperation with the founder, a system of personal recording of time of leaving, destination and estimated time of arrival also in case of short-term stays of recipients outside their facility and check whether the recipient of social services has at least one identification document with him/her.

Based on the results of **the audit of administration of funds and disposition of the property in selected districts of Bratislava**, it recommended adopting measure for improvement of quality of follow-up inspections and issuing a directive on bookkeeping.

Based on the results of **the audit of administration of funds and disposition of the property in State administration and territorial self-administration entities, which was performed based on submitted information, knowledge and rec-**

ommendations from stakeholders and competent authorities, the Parliament, members of Parliament, public administration institutions, organizations and citizens, it recommended that the audited entities elaborate internal directives on bookkeeping as well as for purposes of financial audits, on the provision of subsidies, circulation of accounting documents, procedure for recording and publishing contracts, orders and invoices, the use of motor vehicles and on public procurement; supplement missing legal requirements to the principles of administration and disposition of municipality's property and issue such principles as the municipality's generally binding regulation; implement such measures in the area of public procurement, which prevent accepting such tenderer in the process of public procurement who is not able to perform works for the most part (70-80%) with the use of his own capacities; during the implementation stage enhance inspection activities in the area of quantity surveying by engagement of a qualified person and increase the level of documentation during construction activities by means of photo documentation.

Based on the results of the **audit of observance of generally binding legal regulations in the course of administration of public funds and disposition of the property in towns which are not district capitals, in town districts and municipalities with more than 3,000 inhabitants**, it recommended that audited entities update the generally binding regulation on the provision of subsidies and the directive on public procurement; update lease contracts; update directives ensuring performance of preliminary and continuous financial audits within the scope of powers of the town and its budget and contributory organizations; modify the principles of administration so that they clearly set the way of letting property and taking decisions of the municipal councils by a majority of three-fifths of all council members when selling and leasing property for reasons deserving special consideration; elabo-

rate an internal regulation for bookkeeping and circulation of accounting documents; set exact and measurable rules for the provision of subsidies from budgets of city districts, i.e. for activities associated with the process of entering into contractual relationships, continuous inspection of the use of funds, inspection and their charging; bind the recipient of a subsidy to settle his liabilities from certain amount by direct debits from the bank account; do not provide subsidies for activities, but for a specific purpose, event or project only.

Based on the results of the **auditing of debt policy of selected towns and municipalities**, in order to ensure correct application of budgetary rules, it recommended to the Ministry of Finance of the Slovak Republic that the Ministry of Finance of the Slovak Republic elaborate a methodological instruction for the entities of territorial self-administration which would deal with the calculation of debt and meeting conditions for adoption of recoverable sources of funding; consider modifying the financial statement of loans, issued obligations, bills of exchange and financial lease by the public administration entity and financial statement of the status of bank accounts and liabilities of municipalities, HTUs and budget organizations established by them, or integrate the statements so that they provide complete information on the actual amount of debt in terms of budgetary rules; consider modification Act on Budgetary Rules in Local Administration in the area of meeting conditions for receipt of recoverable sources of funding – up to the amount of annual instalments of recoverable sources of funds do not include the sum in their early repayment, i.e. irrespective of whether it would be an early one-off repayment or early repayment in several instalments and define more exactly the scope of reporting the status and development of the debt on the final account of a municipality so that such information also provides data for meeting conditions for the receipt of recoverable sources of funding and the relevant muni-

pal council is obliged to deal with them; establish a system for auditing the data submitted to the Ministry of Finance of the Slovak Republic in order to eliminate differences and ensure as objective reporting of the real status of the debt in the self-administration unit as possible.

Based on the **audit of observance of generally binding legal regulations when administering public funds and disposing of property including inspections of implementation of measures resulting from previous audits in a district capital**, it recommended that the controlled entities: update directives and generally binding regulation in agreement with legislative changes; continuously inspect the administration of budgetary funds and make amendments to the budget by a budgetary measure; consider changing or modifying the provision of subsidies in the generally binding regulation or directly in contracts with individual recipients so as to specify the purpose of a subsidy more clearly as well as the conditions of drawing upon the resources of the subsidy and its settlement in accordance with the budget of the specific subsidy.

Based on the **audit of the status of public funds and property in a regional capital and adoption of measures from previous audits**, it recommended that the controlled entities update directives, instructions and internal regulations in accordance with current legislation; improve the effectiveness of their internal audit system so that it covers audit of all public funds and property.

Based on the results of the **audit of administration of public funds and disposition of the property of territorial self-administration in municipalities with less than 1,000 inhabitants**, it recommended that the audited entities adopt an internal directive for procurement of goods, services and construction works under the municipality's conditions, in particular with relation to low-value tenders; define the period for ac-

ceptance of applications for subsidies from the municipality's resources so that the municipality's budget may include a specific action, task or purpose for which the funds are provided; supplement the specimen contract on the provision of subsidy with all obligations of the recipient which result from the generally binding regulation on the provision of subsidies from the municipality's budget; modify the generally binding regulation on the provision of subsidies from the municipality's budget taking into account the modification of approval processes or processes of evaluation and settlement of subsidies; in the municipality's administration rules, put more exactly the cases and conditions under which temporarily unused property of the municipality may be lent and not leased; define basic principles that deserve special consideration when transferring and leasing municipality's property.

The recommendations of the SAO SR in the course of audit of administration and property of assets in the area of information technology at the Industrial Property Office of the Slovak Republic were directed towards proper and continuous assessment of large investment projects not only in terms of technology, but also from the perspective of financial performance, towards securing presence of a representative of the legal department in work groups aimed at implementation of such projects, adoption of measures to increase transparency in connection with procurement, development and use of ICT, entering into contractual relationships only in written form and exploitation of all means including a proposal for declaration of invalidity of unfavourable contracts and agreements by a competent court. Recommendations also related to the use of all legal means in order to finish a not functioning product (INVENTIO II) and harmonize the operation and safety of the information system with good practice in this field.

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS FOR CORRECTING THE DEFICIENCIES

AUDIT ACTIVITIES FOCUSED ON UTILIZATION OF EU FUNDS AND OTHER FINANCIAL INSTRUMENTS FROM ABROAD

Audit of funding scientific and research activities from foreign resources at selected Colleges and Universities revealed that public Colleges are very undersized as far as their financial, material and technical background is concerned as well as in the area of support and stabilization of human resources, and this condition significantly reduces their competitiveness in the area of international research.

The inspection revealed that the Ministry of Education, Science, Research and Sport of the Slovak Republic (MESRS SR) does not monitor how the programmes of scientific and research projects funded from State programmes, structural funds and foreign resources contribute to meeting of priority targets of scientific and research activities in the Slovak Republic. There is no model available, which would define which financial instrument and in what way contributes to scientific and research advancement. The interoperation of financial instruments in science, research and innovations has not been regulated and therefore it was not possible to evaluate the effectiveness of programmes or effectiveness of the use of funds.

The SAO SR, having inspecting individual processes and procedures, stated that the system of support for public Colleges by MESRS SR in the area of obtaining foreign grants for research and development is

not effective. On national level, there is no system support for parties implementing projects, which would include funding of project preparation stages, legal support, funding of patents and trademarks.

No system tool that would ensure stabilization of high-quality research worker and thus prevent “the brain drain” has been created. If there is any piece of motivation, then it is only created individually on the University (Faculty) level.

In 2011, from each paid Euro, which was transferred from the Budget of the Slovak Republic to the EU budget, only 18 cents returned (by means of funding of specific projects). It means that in case of the 7th Framework Programme for Research and Development, Slovakia contributed more to the EU budget than it received.

Audit of observance of generally binding legal regulations in the course of disposition of public funds provided for funding of fairs and exhibitions in the Slovak Tourist Board revealed that in 2011, Slovak Tourist Board presented Slovak Republic at 34 international tourism fairs and exhibitions. In 2011, the total funds for fairs and exhibitions reached 2.0 million EUR. In 2012, it presented Slovakia at 30 international tourism fairs and exhibitions and total funds for fairs and exhibi-

tions reached 2.1 million EUR. The total amount of utilized EU funds – payment applications which was already prepaid by a payment unit as of May 31, 2013, was 17.8 million EUR, i.e. 65.41%.

The shortcomings revealed by the audit related for the most part to the breach of Act on Accounting, having the form of charging indemonstrable costs in case of participation of hostesses at exhibitions, acceptance of a document not containing all details of an accounting document in case of airplane ticket purchase. Breaches of Act on Travel Reimbursements had the form of non-observance by employees of the deadline for submission of documents related to a business trip abroad, non-observance of the deadline for accounting for the business trip by the employer and acceptance of a holiday at the time of commencement of a business trip abroad.

Further, the audit revealed non-observance of contractual terms and conditions, as official promotional items were supplied in other than agreed amount.

Slovak Tourist Board accepted the fact that appendices to supplier invoices from completed exhibitions in three cases did not contain a detailed description of individual parts of work performed. Audit of documentation related to selected fairs and exhibition revealed acceptance of documents with definitely unproved content.

Audit of the mechanism for evaluation, monitoring and continuous meeting of targets of a selected operational programme of the National Strategic Reference Framework 2007-2013 was performed as part of the Operational Programme Competitiveness and Economic Growth – “Provide sustainable economic growth and employment” at the Ministry of Economy and Slovak Innovation and Energy Agency.

Using a selected Operational Programme Competitiveness and Economic Growth, the SR SAO checked meeting of requirements pertaining to evaluation, monitoring and continuous meeting of targets of the operational programme and the status of drawing funds. The SR SAO notified the Ministry of Economy

of the Slovak Republic as the governing entity of the programme of the need of increased efforts in order to reach the target indicator value – number of newly established places, since as of September 30, 2013 the indicator value was only 16.8% met and asked the Ministry of Economy of the Slovak Republic to take adequate measures. As of October 31, 2013, 536 million EUR were drawn from the operational programme, which only means 47.4% of the EU commitment for the period 2007-2013. The SAO SR drew the attention of the Ministry of Economy of the Slovak Republic to the fact that due to this unfavourable condition, there is a high risk of potential failure to fully draw funds allocated to the Operational Programme Competitiveness and Economic Growth before December 31, 2015.

The process of evaluation and monitoring as well as observation of the terms of Agreement on the Provision of the Non-returnable Financial Contribution was audited by the SR SAO also on a sample of projects in the intermediary authority under the governing authority. It found out that the Agreement on the Provision of Non-returnable Financial Contribution was not observed in several cases. The SAO SR also found out that the audit mechanism for the verification of reaching the measureable result indicator – number of newly established places was not set correctly.

Analysis of drawing on public funds for direct payments and support, which was part of the **audit of implementation of measures associated with the provision of direct payments and supports covered from EU funds and the Budget of the Slovak Republic**, performed at the Agricultural Paying Agency (APA) for the years 2011 and 2012, revealed a slight increase in spending of public funds in these areas.

By means of the audit of effectiveness and reliability of the management and audit system of APA and compliance with the requirements set in valid regulations of EU and the Slovak Republic, the SAO SR arrived at the conclusion that requirements of valid regulations were observed and the system functioning is sufficient in order to ensure legality and correctness of direct payment and support funding.

On a selected sample of payments within selected measures of the Programme of Rural Development in the Slovak Republic 2007-2013 axis 2, the SAO SR audited the system of funding and drawing on funds, legality and correctness of their payment. The method for support calculation was not considered as standard by the SAO SR, since in the course of the calculation process, no equal mathematical principles of rounding off were used. The book of debtors in the APA information system was not kept accurately and completely and did not always show the real state of debts and sanctions.

Based on **the audit of legitimacy of expenses within the Operational Programme for Fisheries in the Slovak Republic 2007-2013 and the Operational Programme Technical Assistance**, which was performed at the Ministry of Finance of the Slovak Republic in order to verify meeting of condition according to Art. 16 of the Implementing Regulation of the Commission (EC) No. 1828/2006 at the Ministry, the SAO SR arrived at the conclusion that the Ministry of Finance of the Slovak Republic has in its internal documents a system for management and control which is appropriately used when elaborating applications for not returnable financial contribution and payment applications, where it acts as a recipient. The SAO SR was appropriately assured that the system used during elaboration and approval of relevant documents is sufficient and minimizes the risk of unauthorized expenses.

Audit of implementation of the Cross-Border Cooperation Programme Poland-Slovak Republic 2007-2013 was performed at the Ministry of Agriculture and Rural Development of the Slovak Republic based on the joint initiative by the highest supervisory authority of Poland, Delegation in Rzeszow and the SAO SR. It was a follow-up to the audit with similar focus which was carried out in 2010 in the offices of self-governing regions, like Information Points and in 11 end recipients.

Results of the audit carried out by the SAO SR in 2013 showed that the Ministry of Agriculture and Rural Development of the Slovak Republic, which was completing tasks of a national programme coordinator in the Slovak Republic, ensured relevant separation of

management functions from payment and audit functions, cooperated with the governing body and other bodies and carried out first-level audits and co-funding of projects by the Slovak partner of the project from the State Budget of the Slovak Republic.

With the audit, the SAO SR obtained reasonable assurance that these activities were in all important aspects in line with programme documents, legislation of the EU and the Slovak Republic, contracts on provision of funds from the European Fund for Regional Development and from the State Budget of the Slovak Republic and are being implemented as proposed and described in internal procedure guidebooks.

The audits focused on drawing on EU funds showed that current unfavourable state of spending funds from the EU commitment appropriations for the Slovak Republic for the programme period 2007-2013 is indicator of not sufficiently taken opportunity to learn a lesson from the mistakes made in the first programme period 2004-2006 and eliminate those mistakes and ensure maximum use of allocated funds.

By a year-on-year comparison of programme period, **the SAO SR arrived at the conclusion that the situation in the area of drawing is not satisfactory**. As of December 27, 2013, in total 6 billion EUR had been drawn from 11 operational programmes of the National Strategic Reference Framework, which is only 51.6% of the total commitment appropriation, which was 11.5 billion EUR. It means that in the next two years (until the end of 2015, when the legitimate funding period ends), the Slovak Republic must draw almost as much as during previous seven years. And in some of the operational programmes, in which the drawing situation is below average, it will be even more. The programmes are as follows: Education with the level of drawing amounting to 39%, Environment 44%, Research and Development 45%, Information Society 46%, Transport 48% and Competitiveness and Economic Growth 48%.

The SAO SR considers as inevitable mobilizing all parts involved in the system of management, funding an audit of EU funds in order to pre-

pare a schedule of drawing for the next two years of legitimate funding and taking system measures to achieve the plan so that to ensure maximum spending of allocated funds.

In any case, accelerated drawing is associated with high inherent and audit risk, taking into account the fact that since 2014, in addition to finishing drawing a large amount of money from the second programme period 2007-2013, it is necessary to start drawing EU funds from the third programme period 2014-2020. Based on the results of control activities, the SAO SR arrived at the conclusion that the key risks affecting drawing EU funds and their co-funding from the State Budget of the Slovak Republic are in particular:

- administrative burden associated with the preparation and submitting of relevant documents;
- complicated proving of expense validity,
- insufficient use of simplified procedures allowed by the European Commission,
- problems with public procurement and its audit,
- insufficient readiness of project documentation in case of large transport project,
- problems associated with environmental requirements, such as evaluation of project impacts on affected territories of NATURA 2000 network, and associated prolongation of approval process in case of large projects.

In spite of several positive changes within the simplified implementation of the EU Budget during the multiannual framework for 2007 to 2013, the current system for implementation of funds remains fairly complicated, strict and presenting administrative burden. For the coming third programme period 2014 to 2020, the European Commission proposed rationalization of programmes and use of simplified mechanisms and implementation procedures. This procedure may help to improve the use of EU funds, but on the condition that the systems of management and audit will function reliably, in particular in areas with higher risk of mistakes and discrepancies, in order to ensure effective use of the EU funds.

As part of annual **audit of selected projects funded from the Swiss-Slovak Cooperation Programme**, the SAO SR inspected the system of management and audit of the SFM and implementation of five selected projects funded from the SFM, at the Government Office of the Slovak Republic, which functions as the National Contact Point and Paying Agency, as well as on the level of five selected projects at end recipients.

The audit identified the risk of larger expenditures and required exceptions in future periods due to delayed implementation of projects funded by the Swiss-Slovak Cooperation Programme, and the administrative burden and potential error rate associated therewith. The SAO SR also evaluated the state of drawing funds allocated for the Swiss Financial Mechanism. As of October 31, 2013, the amount of contributions drawn from the Swiss Financial Mechanism was 2.6 million CHF out of the total allocated amount of 63.5 million CHF, which means 4.2% of the total allocation which may be spent by the Slovak Republic (exclusive of the Swiss technical assistance amounting to 3,350 thousand CHF). However, funds may be spent until 2017. Outputs of the audits by the SAO SR as the independent authority serving as supervision authority with relation to the Swiss Financial Mechanism are an important benefit in order to set up the financial framework for the contribution by the Swiss Confederation to the Slovak Republic for the oncoming second programme period of this financial instrument.

The SAO SR obtained reasonable assurance that the rules and procedures of implementation of the SFM are correct and that approved projects were implemented in compliance with the Framework Agreement, Project Contract, Project Implementation Contract and set targets for which they had been defined and provisions and rules of the Swiss Confederation and the Slovak Republic. The SAO SR did not find any financial errors in the projects.

As part of the audit of measures, in case of four selected projects, the SAO SR detected delays in the implementation of individual activities compared to the approved schedule, due to process acts associated with public procurement and delays caused by supplier actions. The remaining measures were completed or taken on a continuous basis.

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS FOR CORRECTING THE DEFICIENCIES

AUDIT ACTIVITIES PRESCRIBED BY THE ACT ON THE SAO SR

The Opinion of the SAO SR on the proposal of State Final Account of the Slovak Republic for 2012. In connection with elaboration of the Opinion, the SAO SR assessed whether the final accounts were prepared correctly in 20 entities in total, namely in 13 selected Chapters of the State Budgets and in eight HTUs. The SAO SR used the audit results as the basis for elaboration of the Opinion on the draft State Final Account of the Slovak Republic for 2012, which it submitted to the National Council of the Slovak Republic.

Based on the audits performed, the SAO SR

stated that accounting and financial reports prepared as of December 31, 2012 did not contain any significant inaccuracies and provided a faithful and true picture of the facts which are the subject of bookkeeping and of the financial situation in accounting units.

In the area of State Budget revenues, the SAO SR drew the attention to the drop-out of tax and contribution incomes of 682.0 million EUR. The biggest part of this outage comes from value added tax (389.0 million EUR), legal entity income tax (171.0 million EUR) and excise taxes (99.0 million EUR). For declining volume of income to the State

Budget of the Slovak Republic, mainly caused by deepening of various forms of tax evasion and frauds, the SAO SR pointed to the necessity to eliminate the losses in income especially in the case of the value added tax which is in case of the Slovak Republic one of the biggest in the EU.

As far as EU funds are concerned, it is also necessary to eliminate imminent risks which are related in particular to automatic cuts in commitment appropriations related to EU funds due to the use of the n+3 or n+2 rule or failure to spend all EU funds allocated to the Slovak Republic for operational programmes of the National Strategic Reference Framework for the programme period 2007-2013.

Audit in the municipalities and HTUs revealed several breaches of generally binding legal regulations. They did not proceed in accordance with Act on Public Procurement, Act on Accounting, Act on Budgetary Rules in Public Administration and Local Self-administration and Act on Municipalities.

Financial statements prepared by municipalities pursuant to Act on Accounting contained required parts and details. Shortcomings in the bookkeeping of assets and liabilities, incomes and expenses, costs and return which were re-

vealed by the audit were not considered as serious and did not have impact on the results reported in accounting and financial statements as a whole. Statements of these entities were also a reliable basis for the preparation of their final accounts for 2012, which contained all required details.

Based on the shortcomings revealed by the audit, the SAO SR, in accordance with § 13, section 2 of Act on the SAO SR, provided recommendations to the audited entities, which should ensure elimination of adverse effects of detected shortcomings when spending public resources and EU funds. Opinion of the SAO SR on the draft State Final Account of the Slovak Republic for 2012 was the subject of the proceedings of the National Council of the Slovak Republic on its 21st meeting on June 19, 2013.

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS FOR CORRECTING THE DEFICIENCIES

AUDIT OF TAKING MEASURES ADOPTED IN ORDER TO REMOVE SHORTCOMINGS REVEALED BY PREVIOUS AUDITS

Audit of the implementation of measures adopted based on the audit carried out in 2012 in Slovak Guarantee and Development Bank, JCC. Bratislava

The audit carried out by the SAO SR in 2012 revealed repeated shortcomings in economic efficiency and purposefulness of the use of funds, in particular for representation, promotional activities as well as the breach of the principle of transparency and non-discrimination of tenderers in the course of public procurement and shortcomings in the course of disposition of public property.

To eliminate the shortcomings detected, the Slovak Guarantee and Development Bank (SGDB, JCC) adopted in total 11 measures which were presented to the SAO SR in a letter dated Janu-

ary 30, 2013. A report on the implementation of measures was delivered to the SAO SR on June 17, 2013. The report on the implementation of measures sent to the SAO SR claimed implementation or continuous implementation of all measures.

Through audit of areas with detected shortcomings, the SAO SR evaluated the impact of implementation of adopted measures on the transparency, economic efficiency and purposefulness of disposition of the funds and property of SGDB, JCC of 11 adopted measures, the SAO SR assessed all measures as implemented, or implemented on a continuous basis. The state of implementation of measures adopted by SGDB, JCC to eliminate the shortcomings detected corresponded with the state described in the report on the implementation of measures. Investigation of the areas in

which shortcomings were detected during audit carried out in 2012 did not reveal any shortcomings, based on which the SAO SR evaluated the implemented measures as sufficiently effective.

Audit of the implementation of measures to remove shortcomings detected during the audit by the SR SAO in 2011 was carried out in the Antimonopoly Office of the Slovak Republic.

Audit of the implementation of measures revealed that of 24 measures adopted following audit by the SR SAO in 2011, 21 measures were implemented. Two measures were evaluated as partially implemented. One measure was not implemented.

Based on the audit, the SAO SR claimed that the implemented measures were effective. By their implementation, the relevant processes were harmonized with associated generally binding legal regulations in the area of information and communication technologies and information systems of public administration.

Audit of implementation of measures resulting from audit of meeting obligations from financial and economic relationships when exercising rights of a shareholder in the area of disposition of the funds and property of TIPOS, National Lottery Company, a. s. To eliminate shortcomings revealed by the audit carried out by the SAO SR in 2012, TIPOS, a. s. implemented a total of 21 measures. The report on the implementation or ongoing implementation of measures sent to the SAO SR claimed that all

measures were implemented or are implemented on an ongoing basis.

Out of 21 audited measures that were adopted, the SAO SR assessed 16 as implemented, 4 as partially implemented and one measure was being implemented on an ongoing basis.

Investigation of the areas in which shortcomings were detected during the previous audit and for the elimination of which TIPOS, a. s. adopted 21 measures, revealed breach of internal regulations of TIPOS, a. s. in three areas. Effectiveness of two adopted measures was evaluated as unsatisfactory. There were still deficiencies in the effectiveness of the internal audit system.

In connection with persisting or repeated shortcomings detected in the course of audits of implementation of measures, the SAO SR consistently enforced relevant recommendations. For example, during the **audit of implementation of measures resulting from audit of meeting obligations from financial and economic relationships when exercising rights of a shareholder in the area of disposition of the funds and property of TIPOS, National Lottery Company, a. s.**, it recommended reviewing valid and effective contracts concluded by TIPOS, a. s. (contracts on goods delivery, service contracts or contracts on construction works) and that in the presence of a person responsible for public procurement. It also recommended amending the directive "Recording and Depreciation of long-term assets" so that it also contains the method of determination of the sale price of excess assets.

EXECUTION OF THE RESULTS OF AUDITS

In 2013, the SAO SR executed the results of audits in accordance with Act on the SAO SR. To help remove the shortcomings detected by the audits and improve administration of public funds and disposition of public property, it submitted relevant recommendations to the audited entities. It discussed the report of audit findings with the statutory body of the audited entity. It produced minutes of the discussion on the report, in which it obligated the statutory body of the audited entity with the obligation to adopt and submit to the SAO SR at scheduled date measures to eliminate shortcomings revealed by the audit and a written report on the status of implementation of adopted measures. The SAO SR also informed the authority acting on behalf of the State or municipality or HTU of the shortcomings detected by the audit in connection with the activity of the audited entity. At the same time, the audit report findings were continuously published at its website. The President of the SAO SR informed the Prime Minister of the Slovak Republic, relevant Ministers of the Government of the Slovak Republic, Committees of the National Council of the Slovak Republic and other relevant bodies.

SAO SR sent 27 notices to the Finance and Budget Committee of the National Council of the Slovak Republic; seven notices to the Public Administration and Regional Development Committee of the National Council of the Slovak Republic; four notices to the Economic Affairs Committee of the National Council of the Slovak Republic and the Committee on European Affairs; three notices to the Education, Science, Youth and Sport Committee; two notices to the

Committee on Health Care and the Committee on Defence and Security and one notice to the Constitutional and Legal Affairs Committee and the Committee on Social Affairs.

In accordance with Act on Budgetary Rules in Public Administration and based on the results of audits carried out in 2013, the SAO SR notified relevant finance audit administration bodies (hereinafter only referred to as "FAA") of a six cases of financial discipline breach in the total amount of 14,189.85 EUR. Until now, two resolutions under Act on Administrative Procedure have been issued by the FAA based on those notifications. In the remaining cases, FAA did not issue a valid resolution until the end of 2013.

Based on the results of the audit of administration of funds and disposition of the property in State Administration and territorial self-administration entities, which was performed based on submitted information, knowledge and recommendations from stakeholders and competent authorities, the Parliament, Members of Parliament, Public Administration institutions, organizations and citizens, the SAO SR notified the relevant Offices of Public Prosecution of a conflict of a generally binding regulation on provision of subsidies with Act on the Budgetary Rules in Local Administration, as part of the inspection in the municipalities of Dolné Vestenice and Kľačany and breach of a generally binding regulation in the municipality of Chrabrany. It sent the report on findings of the audit carried out in the municipality of Chrabrany to the relevant tax authority as well. As part of the audit, the SAO SR

sent the report on findings of the audit carried out in Harmónia – facility for elderly people in Hlohovec to the Office for Public Procurement in connection with the breach of Act on Public Procurement. It informed the Košice Autonomous Region of the breach of financial discipline discovered by the audit carried out in the East-Slovakian Gallery in Košice. In connection with the inspection carried out in the municipality of Veľký Kýr, it informed the MTCRD SR of the breach of obligations when publishing contracts.

Based on the results of the audits of the status of public funds and property in the regional capital and implementation of measures from previous

audits in the Town of Nitra, it notified the Office for Public Procurement of the detected shortcomings.

Based on the results of the audits of spending public funds for the coverage of operational costs in selected healthcare facilities, which was performed in the Psychiatric Hospital Veľké Zálužie, the SAO SR sent the report on audit findings to the Office for Public Procurement and the relevant tax authority.

In 2013, the SAO SR cooperated with the law-enforcement authorities in 17 cases, when it sent a report on audit findings or other information requested by the law-enforcement authorities.

ACCEPTANCE BY AUDITED ENTITIES

The unbiased and impartial approach of SAO SR to the inspection and elimination of detected shortcomings by following the recommendation and knowledge of good practice was positively evaluated by audited entities. In their special letter, the General Manager of the Railway Slovak Company and the General Manager of the Supporting Programmes Section at the Ministry of Economy of the Slovak Republic thanked the SAO SR for its professional and fair approach and accommodating and prompt behaviour of its employees during the audit. In his letter, the Minister of Labour, Social Affairs and Family thanked the SAO SR for previous activities in the area of

audit of key issues of the society, by which it undoubtedly contributes to appropriate quality of management of public funds and disposition of the property of the Slovak Republic. The Minister of Education, Science, Research and Sport of the Slovak Republic thanked the SAO SR for cooperation when eliminating shortcomings detected by the audit of the SAO SR. In his letter, the Deputy Prime Minister for Investments thanked the SAO SR for suggestions related to the EU funds and appreciated in particular the recommendations having to do with the simplification of administrative work associated with the spending of EU funds.

OTHER ACTIVITIES

THE REPORT AND OPINIONS FOR THE NATIONAL COUNCIL OF THE SLOVAK REPUBLIC

Pursuant to § 5, section 5 of the cited Act, the SAO SR elaborated and submitted to the National Council of the Slovak Republic the Report on the Results of Control Activities of the SAO SR in 2012. The National Council of the Slovak Republic deliberated on the Report on its 19th session on May 28, 2013.

Pursuant to the provisions of § 5, section 1 of the Act on the SAO SR, the SAO SR completed and submitted its Statement to the Draft of the Final Account of the Slovak Republic for 2012 to the National Council of the Slovak Republic. The National Council of the Slovak Republic took up the Statement on its 21st session on June 19, 2013.

Pursuant to the cited provision of the Act, the SAO SR also completed and submitted to the National Council of the Slovak Republic its Statement to

the Draft State Budget for 2014, which contained no significant comments on the Draft State Budget of the Slovak Republic for 2014, and took note of the scheduled 31st meeting of the Tax Revenue Forecasts Committee which was convened due to the approval of the new tax legislation in the process of the preparation of budget of public administration of the Slovak Republic for 2014-2016 and therewith also any potential modifications, in particular on the income side.

In this Statement, the SAO SR also pointed to several risks in macroeconomic assumptions and the initial framework of the draft Budget of Public Administration, Budget of the Slovak Republic and of other Public Administration entities. The National Council of the Slovak Republic took up this Statement at its 27th session on December 12, 2013.

THE ACTIVITY OF THE SAO SR AS THE BODY ISSUING DECLARATIONS ON THE WINDING-UP OF ASSISTANCE GRANTED UNDER THE STRUCTURAL FUNDS AND COHESION FUND FOR THE PROGRAMMING PERIOD 2004-2006 FOR 2013

The audit activity of the SAO SR connected with the issue of declarations on the winding-up of the assistance granted under the Structural Funds and the Cohesion Fund for the programming period 2004-2006 was completed in 2012 with the last audit of the Cohesion Fund project.

In 2013, the activity of the SAO SR in this special position was only focused on the process of the closing the programming period 2004-2006, which is still ongoing and entering its final stage. In this connection, in 2013 the SAO SR carried out one special audit of the project Trebišov Industri-

al Park, which was funded from the sectoral operational programme Industry and Services in the 2004-2006 programme period. By pointing out the shortcomings and requesting remedies, the SAO SR helped to approach the settlement of the sectoral operational programme Industry and Services by the European Commission, which is still not closed with this project being one of the most problematic matters.

By audit of the project No. 11110200025 – Trebišov Industrial Park, which was carried out at the final recipient in the town of Trebišov, the SAO SR obtained appropriate assurance that the project was completed in accordance with the original Agreement on the Provision of the Non-returnable Financial Contribution and annexes thereto which were agreed bilaterally with the SARIO agency in the SORO position.

The audit of public procurement related to the performance of works did not reveal any breach of provisions which had been valid at the time of the procurement. According to the SAO SR and based on the on-site inspection in the Trebišov Industrial Park, the functionality of the project enables its exploitation for the volume of intended targets and indicators set in the Agreement on the Provision of the Non-returnable Financial Contribution and annexes thereto. Issues resulting from unsettled

contractual relations between the end recipient and the lessor of land persist in various areas for a longer period, making it difficult for the recipient of the support, the Town of Trebišov, to get new investors. The lease contract including annexes thereto, between the lessor of land and the Town of Trebišov, was concluded for a period of 15 years from the effective date of the Agreement on the Provision of the Non-returnable Financial Contribution. However, the project was completed with delay, which was accepted by SORO by signing annexes to the Agreement on the Provision of the Non-returnable Financial Contribution. But the Town of Trebišov failed to ensure legal extension of the lease contract with the lessor for a period of 15 years from the end of project implementation, as set in the Agreement on the Provision of the Non-returnable Financial Contribution.

The process of closing the programmes of the Structural Funds and the projects of the Cohesion Fund in the programming period of 2004-2006 may be regarded as successful. At the end of 2013, 9 of 11 programmes of the Structural Funds in the programme period 2004-2006 were closed. Thirty of 41 projects of the Cohesion Fund in the programming period 2004-2006 were closed and the remaining 11 projects are in the closing stage (nine environmental projects and two transportation projects).

EXECUTION OF THE FUNCTION OF THE EUROSAI AUDITOR

In 2013, the SAO SR and the Supreme Audit Institution of Estonia performed the function of auditors in order to carry out the EUROSAI financial audit. The SAO SR has held this position for three terms. Pursuant to the EUROSAI Statutes, they jointly conducted the audit of EUROSAI's financial statements for 2012. The audit was aimed at the audit of income and expenditures and financial operations and at the investments and accuracy of their procurement.

The audit confirmed that as of December 31, 2012, the financial statements gave a true picture of the EUROSAI's financial situation. The result of the audit was the audit report with recommendations for the EUROSAI Executive Committee. On behalf of both Supreme Audit Institutions, the report was signed by their highest representatives and sent to the EUROSAI Executive Committee.

CROSS-SECTORAL COMMENTING PROCEDURE

In the cross-sectoral commenting procedure, the SAO SR comments on legislative and non-legislative documents. In 2013, it registered a total of 806 documents - 414 documents of legislative nature and 392 documents of non-legislative nature.

It made one principal and 181 ordinary comments with relation to 48 legislative documents. It made a total of 21 ordinary comments with relation to eight non-legislative documents, of that 12 comments were accepted, three were partially accepted and six were not accepted. Comments on legislative documents were of formal and matter-of-fact na-

ture and related to the Draft Resolution of the Government of the Slovak Republic and in particular to own materials.

The SR SAO approaches the documents in the cross-sectoral commenting procedure in particular in terms of its scope of authority pursuant to Act of the National Council of the Slovak Republic on the SAO SR. By means of comments, it recommends taking measures for improvement of economy, efficiency and effectiveness when administering and disposing of public funds and property.

PROCESSING OF THE SUBMISSIONS OF NATURAL AND LEGAL ENTITIES

In 2013, the SAO SR registered a total of 409 submissions by natural and legal entities, which means a decrease by 65 submissions compared to 2012. Of this total number of 409 registered submissions, 276 submissions (67%) fell under supervisory authority and 133 submissions (33%) did not fall under the supervisory authority.

The vast majority of submissions falling under the supervisory authority of the SAO SR pointed to uneconomical use of funds and property (167 submissions), breach of generally binding legal regulations (68 submissions), the topic of public procurement (22 submissions), uneconomical spending of the

EU funds (14 submissions) and shortcomings in the area of tax and fee administration (eight submissions). The SAO SR also registered eight submissions related to the audits carried out by the SAO SR, either completed or ongoing.

A total of 221 submissions involved local self-administration, which means 80% of the total number of submissions falling under the authority of the SAO SR. The largest number of submissions was directed against municipalities (154 submissions) and towns (35 submissions). A total of six submissions were directed against autonomous regions and 26 submissions were directed against legal

entities in the scope of or with capital participation by the entities of local self-administration.

Complaints against municipalities pointed most frequently to shortcomings in the actions taken by their authorities – Mayors and Municipal Councils, as well as to non-functioning internal control system represented by the Chief Comptroller of the Municipality. The submissions often pointed to the fact that a Mayor does not respect the position of the Municipal Council and its powers defined in Act on Municipalities. Therefore, requests for audit written by Members of Municipal Councils themselves or entire Municipal Councils were not an exception.

Another frequent issue in the request for audit to be carried out by the SAO SR was mandatory

publishing of contracts, orders and invoices pursuant to Freedom on Information Act.

In terms of territorial division, the largest number of submissions related to Municipalities and Towns in the Prešov Region (42 submissions), Nitra Region (33 submissions), Košice and Žilina Region (thirty submissions each). They were followed by Municipalities in the Trnava Region (23 submissions), Bratislava Region (20 submissions), Banská Bystrica Region (15 submissions) and Trenčín Region (14 submissions).

Forty-six submissions were against Ministries, other Central Authorities of State Administration and other entities of Public Administration. The submissions related to the following areas:

Uneconomical disposition of funds from the State Budget	20
Public procurement	9
Breach of other generally binding legal regulations	9
Uneconomical disposition of EU funds	3
Uneconomical disposition of funds and property of a state company	1
Uneconomical disposition of funds and property of a public institution	2
Uneconomical disposition with property of a legal entity in which some capital belongs to the State	1
Tax and fee administration	1
Total	46

Submissions which did not fall under the authority of the SAO SR had most frequently the form of claims related to the energy suppliers or mobile network operators, submission expressing dissatisfaction with the actions of a dwelling house administrator as well as submissions regarding unsettled ownership relations. Another group was made up of submissions dealing with the

Court resolutions, proceedings before administrative bodies and law-enforcement authorities as well as requests by persons serving their sentence in prisons for re-investigation of their cases. Many submissions and complaints pointed to non-observance of generally binding legal regulations in the area of labour-law relations by employers.

PUBLIC RELATIONS

The SAO SR strives to be perceived by the public and the media as a trustworthy and respected institution. To reach that goal, relevant forms of communication are developed and employed.

In 2013, the communication by the SAO SR focused on increase of the amount of information on the basic activity – the audits. One of the reasons was the intention to increase the number of neutral, but especially positive contributions. As of June 1, 2013, the Principles for Improved Presentation of the SR SAO in the Media were implemented in the activities of the Office. A three-member Communication Council of the SAO SR was established. Based on these measures and proactive search for topics resulting from the activities of the Office, it was possible to reduce the proportion of contributions regarding personnel matters in favour of contributions on the work of the Office. The SAO SR started informing the media and thereby the public not only on completed audits, but also on upcoming audits and in particular on performance audits.

In 2013, 15 press reports were prepared on the audit topics. A press conference marking the 20th anniversary of the establishment of the SAO SR and an Open Door Day took place as well as a briefing on funding science from EU funds and on the upcoming audit of the placement of secondary school and university graduates on the labour market. Throughout the year, the SAO SR regularly prepared contributions to professional periodicals ROPO, Územná samospráva (Municipality Self-Government) and Obecné noviny (Municipality News).

In the first half of 2013, the SAO SR supported media presentations regarding the position and activities of the Office. These presentations consisted of published interviews with the President of the Office and findings of the Office for periodicals Parlamentný kuriér (Parliamentary Courier) and Územná samospráva (Municipality Self-Government), additional interview for foreign ECA Journal (European Court of Audit Journal) and appearance in the discussion show Téma dňa (Topic of the Day) on television station TA3. In spite of that, some me-

dia, in addition to negative comments on personnel issues at the SAO SR, tried to provide unfriendly information on activities of the Office (workshop and award-giving ceremony for employees), but also with regard to the management of the Office. There were also frequent efforts to obtain information beyond the findings of auditors, or provision of information from the audit report which was out of context.

With a sense of satisfaction, the SAO SR accepted the fact that the press conference of non-governmental organization Fair-play Alliance used the inspections carried out by the SAO SR as the basis for its information. The SAO SR also met with a positive response to its activities also when it delivered to the Government Office a detailed report on implementation of recommendations given by the SAO SR based on the feedback on the audit of help to Roma people. In the report, the Government Representative for Roma communities acknowledged the need to ensure complex data on Roma people.

As far as the amount of media presentations related to the SAO SR is concerned, in 2013 the Office registered 1,659 contributions. In 2012, when the personnel issues at the SAO SR were also dealt with, a total of 1,123 contributions were registered and in 2011 a total of 462 contributions. In 2013, as many as 713 media contributions dealt with audit activities of the Office, the remaining contributions were devoted to the personnel issued of election of the representatives of the SAO SR.

In the area of cooperation with the media and the public, the SAO SR, following the Strategy of Development for 2014-2020 and all previous conventional communication procedures and tools, prepares new forms of communication. The aim is to improve the presentation of the SAO SR activities, for example through online media, social networks (Twitter in particular), and preparation of educating advertisements on the functioning of the Office and video spots, both in the course external and internal communication.

INTERNATIONAL ACTIVITIES

International activities were an important part of the activities of the SAO SR in 2013. Their main contribution had the form of development of bilateral and multilateral relationships with institutions of identical focus of activities on a global level, improvement of quality and effectiveness of control activities by means of collection and exchange of professional information and experience as well as improvement of the international status of the Slovak Republic in the field of audit.

The SAO SR is a member of international organization of supreme control institutions INTOSAI and its European working group EUROSAI. It is also a member of the Contact Committee of the Heads of EU SAIs (hereinafter only referred to as "the SAI").

In 2013, the SAO SR was active in international institutions, through its representatives delegated to six committees, subcommittees and work groups within INTOSAI, six work groups of EUROSAI, nine work groups of the Contact Committee and one work group for the SAIs from the countries of the Visegrad Group, Austria and Slovenia and two groups for contact with the European Commission and the European Court of Auditors (hereinafter only referred to as "the ECA"). Representatives of the SAO SR were actively contributing to the preparation of strategic documents of INTOSAI and EUROSAI. An important component of the Office's work was the presentation of their activities in international organizations through workshops for employees of the Office. The use of audiovisual

technology for transmission of these workshops to individual SAO SR branches enabled to make a larger group of employees aware of the activities of the SAO SR in international groups, and thus to spread the international good practice.

In 2013, the SAO SR organized a total of 50 business trips abroad and received ten delegations from abroad. Business trips abroad had the nature of top-level meetings, meetings of work group members within INTOSAI, EUROSAI and the Contact Committee, workshops and conferences, meetings on international inspections and other work areas.

As part of performance of tasks resulting from the presidency over the **Promote Best Practices and Quality Assurance through Voluntary Peer Reviews Subcommittee**, in the month of June 2013 the SAO SR hosted member SAIs at a regular mee-

ting which included adoption of documents which were subsequently presented at the XXI Congress of INTOSAI.

The most important international activity of the SAO SR in 2013 was active participation of its representatives in the discussions of management structures of INTOSAI. As the President of the INTOSAI subcommittee mentioned above, the Vice-president of the Office Vladimír Tóth presented the results of the work of the SR SAO and the Subcommittee during deliberations at the INTOSAI Capacity Building Committee in June in Rabat and during the 64th meeting of the INTOSAI Governing Board and plenary session of the XXI INTOSAI Congress in October in Beijing, China. These events were used for promotion not only of the work of the Subcommittee, but also of the SAO SR and the Slovak Republic.



Meeting of top representatives of EU SAIs and the European Court of Auditors in Vilnius



Speech at the XXI INTOSAI congress (INCOSAI) in Beijing

The fact that the Office was assigned to the harmonization project group for revision of the international control standards of INTOSAI, of which it is active member, is also an expression of international recognition of the quality of the SAO SR activities. This work elaborated an amendment to four important ISSAI standards which was approved by the XXI Congress of INTOSAI.

Another important event in 2013 was the international workshop in Bratislava on the occasion of the 20th anniversary of the SAO SR. The workshop devoted to the topic **“The task of SAI in changing social and economic conditions”**, attended by 27 international participants from 7 countries, met with a positive response, as expressed by participants to the workshop in their speeches and by their interest in presentations made at the workshop.

The SAO SR was actively contributing to the implementation of the strategic goals of EUROSAI in the area of professional standards, developing expert capabilities of the SAI and sharing knowledge and experience. At the IV EURO-

SAI-ARABOSAI conference in Baku, the President of the Office Ján Jasovský presented the Peer Review as a way of supporting responsibility, effectiveness and transparency of public administration by strengthening the SAI capacities.



Heads of foreign delegations at the international workshop on the occasion of the 20th anniversary of the SR SAO



Speech at the IV EUROSAI-ARABOSAI conference in Baku

An important component of the SAO SR international activities was the cooperation of the Office with SAIs in the countries of the Visegrad Group, Austria and Slovenia. Experience of the SAO SR with the application of the SAI's system for assessment of performance through PMF (Performance Measurement Framework), and presentation of restored budgetary responsibility in Slovakia including the role of the SAO SR, were presented by the representatives of the Office at the annual meeting and discussions of leading representatives of SAIs from the countries of

the Visegrad Group, Austria and Slovenia (V4+2) in September in Piran, Slovenia. In the course of cooperation of this group, the SAO SR contributed to the joint report from the coordinated international audit in cooperation with the SAI of Hungary, which focused on the construction and maintenance of cycle tracks. The SAO SR also continued the cooperation with the SAI of Poland with relation to coordinated audit of the implementation of cross-border cooperation and carried out coordinated inspection of the level of mountain rescue service background.

Another important area of the Office international activities is the cooperation with the SAI of Switzerland. In the course of 2013, a project of partner cooperation entitled **"Control and Security of Information Systems"** was implemented and its implementation will continue in 2014 as well. Practical trainings of auditors were part of the project.

The SAO SR not only used the obtained experience and knowledge in its work, but also spread them further. Upon invitation by the INTOSAI – IDI (INTOSAI Development Initiative), with its offices at the SAI of Norway, the representative of the SAO SR delivered a lecture as a tutor in Warsaw, Poland to the representatives of the SAI INTOSAI on the system of SAI's evaluation of performance by means of PMF. At the meeting of the INTOSAI work group for key national indicators in Krakow, Poland

the representative of the SR SAO delivered a lecture on the indicators of long-term sustainability in Slovakia.

As part of international activities, the SAO SR accepted the offer from the SAI of India to apply for participation in international training programmes paid by the Ministry of Foreign Affairs of India in 2013. A representative of the SAO SR was successful in the applicant selection process and went on a one-month internship in India, with focus on the performance audit.

International activities of the SAO SR in 2013 contributed to the enforcement of the principles of independent audit and strengthening of its position not only in the region of Central Europe and within EU, but also within the global INTOSAI community.



Meeting of top representatives of SAI from the V4+2 countries in Piran



NAJVYŠŠÍ KONTROLNÝ ÚRAD
SLOVENSKEJ REPUBLIKY

HUMAN RESOURCES

The actual total number of the SAO SR employees as of December 31, 2013 was 292 employees; of that 280 employees in State service and 12 employees performing work in public interest. It was not possible to achieve the planned number of 329 employees in 2013 due to the reductions of its budget, which are implemented since 2011. The SAO SR, in order to ensure maximum professional capacity and quality of work results of its employees, paid extraordinary attention to their systemic professional education in the evaluated year.

Educational activities in 2013 were implemented in accordance with approved annual education plan, which was based on the results of the analysis of educational needs. Professional education was adjusted to the plan of the SAO SR audit activities in 2013 as well as to the modifications of the most frequently used provisions which formed the legal basis for the audits. Trainings took place

throughout 2013, based on a prepared schedule of the implementation of educational activities per target groups at the headquarters of the SAO SR in Bratislava as well as in all branches by means of video conferences.

The plan of education also included activities focusing in particular on professional education events for audits in specific areas, their further training for work with the SAO SR audit informational system, presentations and evaluation of own activities (performance audits, experience from internships and stays abroad) and on familiarizing with amendments to Act on Public Procurement and on amendment and supplementation of certain acts as amended, with current procedures for detection of fraud and planned amendments to acts in customs and tax field as well as with the issue of administering funds in local self-administration and municipalities. All employees attended trainings focused on the issue of switching to MS

Office 2010, personal data protection and selected issues in the field of fight against corruption. A specific, multi-issue education was organized for the officers of the SAO SR and a supplementary training was organized for guarantors and lecturers of e-learning courses.

In 2013, 82 training activities were organized. In addition, 41 individual training sessions were organized based on requests by employees. These training sessions were focused for example on deepening of the competencies of the employees of the Budget and Finance Department, Personal Office and the IT Department, on obtaining professional competencies in the field of public procurement and there were additional training sessions based on individual needs of employees. In case of audits, these sessions were mainly professional consultations at the time of preparation for performance audits, e.g. in the area of transport, social work and cooperation with law-enforcement

authorities. Selected participants regularly attended training sessions regarding anticorruption measures and measures against financial fraud in the area of spending EU funds, which were organized by OLAF at the Government Office of the Slovak Republic. Employee education and its level under the conditions of the SAO SR were continuously monitored and assessed in 2013.

With reference to individual requests, employees of the SAO SR also participated at management and professional conferences, for example: Conference on Current Trends in the Area of Audit and Inspections, Public Administration Quality Forum – Use of Quality Models, Discussion Forum of the Slovak Society for Quality, Views of the Slovak Economy Conference, Internal Audit and so on. Employees who showed interest in more specific expert topics could participate in expert workshops organized outside the SAO SR through Regional Education Centres.

MANAGEMENT AND INTERNAL AUDIT

MANAGEMENT

According to Act on State Budget, for 2013 the following binding indicators were approved for the SAO SR Chapter in 2013:

REVENUES 4,400 EUR

EXPENDITURES 7,971,216 EUR

In the course of 2013, the approved budget of expenditures was not modified by budgetary measures. In 2013, the real amount of budgetary expenditures was 7,890,983.49 EUR, which means 98.99% of the approved and modified Budget Chapter.

The largest share in expenditures, i.e. 78.7%, were expenditures on employees, i.e. wages 4,530,139 EUR, insurance premiums and contributions 1,612,367.68 EUR and regular transfers – severance, retirement and illness benefits 52,675 EUR.

Operating costs (travel expenses, energies, materials, transportation, repairs and maintenance, rent, services and expenses for membership dues in domestic and international organizations and funds for project co-funding from the Swiss Financial Mechanism) totalled 1,558,206.97 EUR, which was 19.8% of the total volume of spent expenses.

Capital expenditures totalled 119,000 EUR, i.e. 1.5% of the total volume of spent expenses. Funds were used for procurement of computer technology (servers), purchase of multi-functional equipment, air conditioning for the server room and vehicle fleet renewal in the form of 5 automobiles.

In 2013, budget revenues of the SAO SR amounted to 33,763.46 EUR, i.e. 767% of originally budgeted revenues. The fulfilment of the revenue indicator was influenced by credit notes, income from insurance benefits received as compensation and also from the rental of premises (canteen in the building in Bratislava).

The SAO SR chapter complied with all binding Budget indicators approved for 2013.

INTERNAL AUDIT

Pursuant to the internal audit plan for 2013, the internal auditor of the SAO SR performed the audit of public procurement for 2012 at the Office, in order to audit the procurement process accuracy in case of all public procurement activities of the Office in terms of their efficiency and compliance with regulations and an audit concerning observance of internal operational directives at selected branches of the SAO SR, focused on property administration and proper operation of branches and audit of administration of the SAO SR in 2012 in order to evaluate the cost-effectiveness and efficiency of used budgetary funds.

Based on the results of conducted internal audits, it was possible to provide assurance that at the SAO SR, all processes related to public procurement were performed accurately and in

compliance with regulations, that the management and audit systems work properly and are effective, that the internal audit system is set up correctly, the separation of individual functions related to financial management is appropriate and unambiguous, that each financial transaction is subject to preliminary audit and the system for separation of individual functions and authorizations is ensured and followed. Further, it was found that the parameters of efficiency and cost-effectiveness of using assigned funds are observed, with strong efforts to achieve savings. Based on the audited documentation, it was possible to provide assurance that all procedures related to financial management were performed correctly and that the Office administers and disposes of the property in accordance with regulations.

CONCLUSION

In 2013, the SAO SR, in accordance with Act on State Budget for 2013, was consistently implementing its defined programme "Independent Audit Activities". With the aim to ensure improved administration of public property, it successfully met the goal of "implementing independent audit activities in terms of approved plan of audit activities, in accordance with internationally recognized audit standards".

It performed its audit activities in a targeted way, based on medium-term strategic focus of audit activities in 2012-2014 and assessment of the risks of impact on the administration of public funds and disposition of public property in the following areas: healthcare, transport, science and research/education and efficient public administration. In the given year, the SAO SR also continued systemic audits of spending money from the EU funds and monitoring and audit of the reform of the tax and compulsory insurance system.

By implementation of the results of audit actions, including the application of recommendations to take measures to remove the detected shortcomings, it provided the audited entities and stakeholders with support in the course of settlement of current problems of administration of public funds and disposition of public property. To ensure maximum transparency of its audit activities and to implement the preventive and educational function of the audit, it was continuously publishing the results of audits and further information related to the activities of the Office on its website.

The SAO SR is ready, in compliance with the measures of the Strategy for Development in 2014-2020 and the Beijing Declaration on the support of good public administration by Supreme Audit Offices adopted in 2013 by the XXI International Congress of SAIs, to systematically and successfully continue performing the mission and tasks resulting from its scope of powers under the Constitution of the Slovak Republic and Act on the SR SAO in the next period as well.



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