Introductory remarks by the SAO SR President Karol Mitrík about the Results of Audit Activities in 2016 Report

The year 2016 was not easy for the SAO SR, but this probably applies to all public administration bodies and organisations. It was a year of several changes that affected our organisation and its employees. At the same time, it was a year of change in the main activity, which is multilateral control of public finances. We have made several organisational changes to help achieve the set goals for increasing the quality and efficiency of our work. We consider as one of the most important happenings the beginning of building an analytical unit. That should help ensure that the audit process in all its phases - from objectifying the risks in managing public resources, through planning audits up to their actual performance - is supported by appropriate analytical activities. Building such a unit along a team of analysts able to support the idea of value for money in audit activities is a current challenge for this year as well. We have set up senates; their operations are to help increase the audit quality. The Legislative and Methodological Council are also important elements in supporting the quality preparation of auditors for their demanding work.

In 2016, we completed 37 audits, and audited 360 entities. We stated 2 619 findings. A wide range was found - from violations of the law with not significant impact on public resources spending, to systemic shortcomings, which cause public administration organisations still have shortcomings in management, and the resources spent not bringing the expected results. The subjects took 1 656 measures to remedy them. In addition, the SAO SR formulated 620 recommendations; their adoption could prevent the emergence of similar problems in the future. We sent 13 reports of suspected criminal activity to two law enforcement authorities, two reports were of a non-criminal nature; we reported breaches of financial discipline in nine cases, sent five suspicions of non-compliance, and we have sent 25 other notifications of non-compliance to other various state administration bodies.

Last year, we received 471 submission from individuals and legal entities, while 29 of them were used in ongoing audits, or initiated an extraordinary audit.

We focused our audit activities to various areas of public administration; we assessed the areas of public finances revenue and expenditure as required by the SAO SR Act. In the area of State budget revenues, we examined the methods and procedures for dealing with tax arrears at the tax administrator and in Slovenská konsolidačná. The volume of tax arrears is still high, so it is important how efficiently this potential source of budget revenue is managed. The audit showed the existence of several problems that do not allow using this potential to its full.

EU resources are an exceptional and unique budgetary resource. The audit subject of an audit performed in 2016 were several investment and non-investment projects financed from EU funds. We assessed various aspects of the use of these resources - their use in accordance with the law up to the effectiveness of their expenditure. Almost all audits have shown that the use of European funds still has a number of shortcomings meaning these resources are not used efficiently enough and the results achieved are often unsustainable. There are examples of good practice in this area but they are rare.

Entities dealing with national and European resources represent a diverse spectrum of public administration organisations, which conditioned the diverse focus of the SAO SR audit activities and the application of various types of audits. Several audits had the same objective - to examine how organisations handle budgets and the assets entrusted to them, how they apply budgetary rules and budget programming, whether public procurement results in the efficient use of resources, how internal control works. Other audits were of a specific nature, focused on aspects important to the SAO SR opinion on the public administration final account and the State budget, or represented a type of financial audit focused on the risks of applying statutory accounting procedures and true reporting. Last year, they represented a greater share of performance audits in the audit structure. They also showed that the activities of public administration organisations do not significantly improve the quality of this

process, the internal control mechanisms are insufficient, the management of strategic projects shows considerable formality, and there is lack of responsibility for serious deficiencies.

The self-government, as an important part of public administration, was also in the Office spotlight in 2016. The SAO SR has long pointed out a number of problems in the effective performance of its tasks and mission. The audit has once again shown that smaller municipalities in particular have problems managing their competencies and developing in programmed manner and purposefully. The SAO SR therefore reiterates the need for a public debate on the further direction of municipal reform, the division of competencies and other issues. The SAO SR considers the topic of the current state and development of municipal reform as extremely important, because without significant changes, it is highly probable that the municipality will not significantly solve the problems of economical, efficient and effective use of public resources, and, on the contrary, they will persist.

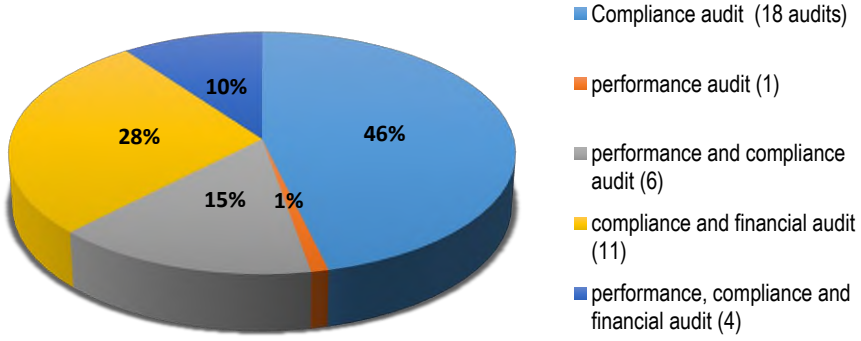
The submitted report about the SAO SR's audit activities results in 2016 provides more detailed audit results for the above-mentioned areas. I want to express my conviction that they give a true picture of our activities, but also an objective view how the audited entities used public resources in previous years. I believe the audit results will not stay unanswered, but will serve to the audit main mission - to correct errors and shortcomings, so that the supreme audit authority of this country provides the public with a picture of public policies implementation, how their bearers reflect the long-term sustainability principles, efficiency and effectiveness into strategic management processes.

Audits plan and results

The College adopted the plan of audit activities for 2016 on 30 November 2015. The approved **plan consisted of 37audits:** 16 audits were planned as compliance audits, 10 as a combination of compliance and financial audits, and 11 were planned as performance audits combined with compliance elements.

During the year, the plan was adjusted for audits based on submissions, which meant **expanding the number of audits to 40**: 18 control actions were compliance audits, 11 were compliance and financial audits, 10 were a combination of performance audit with compliance and financial elements, and 1 audit was performance. The number of audits where the elements of performance were significantly applied reflected the emphasis by the SAO SR not to pay priority to legality, but also to the aspect of efficiency and effectiveness of the resources spent. The plan was to complete 30 audits in 2016, 10 due to time and material demands were planned in 2017. The plan assumed audits in 347 entities, and actually performed audits were performed in 360 entities.

Graph 1 Planned audits according to type in % (40 audits)



Source: SAO SR

The implementation of the SAO SR audit plan in the course of 2016 pointed out several weak points in the planning process applied from the previous period - generally defined audit objectives, negligible application of performance principles in the audit process. The weakness of the SAO SR audit activity is still insufficient specialisation of auditors in individual public policies; a relatively small number of auditors fully master the application of the performance audit principles in audit practice.

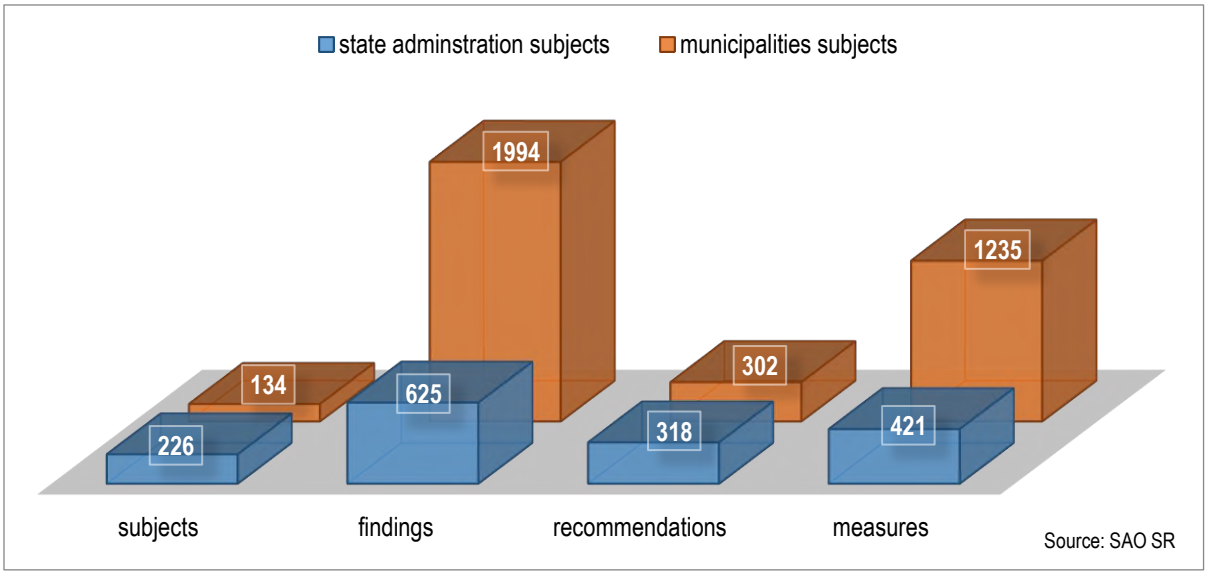
For this reason, the SAO SR management started a revision of the planning process for 2017 in 2016. In addition to determining priority areas in which inspections will be performed, the SAO SR introduced multiple internal and external evaluations of the topic. A new element of strengthening quality was the establishment of three senates in 2016 under the leadership of constitutional officials, whose task was to assess the quality of preparation and audit outputs. Better preparation of audits, based on multilateral analytical activities, and better training of specialist inspectors - this remains a great challenge in the activities of the SAO SR for the near future.

Results of audit activities in 2016

The evaluation of the audit activities results for 2016 is based on: the audit results completed in 2016, the findings by the SAO SR Statement for the State Final Account for 2015 and the SAO SR Statement for the State Budget 2016 and 2017 drafts, as well as other findings from the analytical activities by the Office.

In 2016, 37 audits were completed: five audits started in 2015. Within the completed audits, the assets and funds of 360 entities were inspected in accordance with the audit subject and purpose. Data about the number of entities in which the audits were performed, the number of findings, recommendations and measures are part of graph 2.

Graph 2 Results of audit activities 2016



SAO SR sent 13 notifications of suspected criminal activity to the law enforcement authorities and two notifications were of a non-criminal nature. We pointed out breaches of financial discipline in nine cases, we sent five suspicions of non-compliance with the law to the Public Procurement Office, and we sent 25 notifications of non-compliance with the law or breaches of other generally applicable regulations to various other State administration bodies.