Introductory remarks by the SAO SR President Karol Mitrík about the Results of Audit Activities in 2018 Report

The presented report presents a picture how the SAO SR fulfills its main mission. It is not just a statement about negative findings; the role of audit is also to point out good practice and thus provide guidance to others to use their resources and perform their tasks economically, efficiently and effectively. However, there is still little information about good practice to draw conclusions about significant progress in building an efficient public administration that is not only to run in accordance with the law, but also to ensure sustainable development. The audits performed in 2018 once again provided evidence that there is still much room for better results in the management of public administration organisations and more efficient and effective fulfillment of the strategic and operational development goals by individual ministries and society as a whole.

In this context, I would like to emphasize that the control and audit of the socially desirable use of public resources is not only within the SAO SR competence. In twenty-five years of building the public administration, the focus and powers of audit and control have spread over several levels. In the first years, Act 10/1996 Coll. played an important role in the audit and control of State administration. It was, in the SAO SR opinion, already insufficient for effective internal assessments. In public administration organisations today, the basis of internal control is financial control and, in the case of administrators of State budget chapters, internal audit. These forms of internal control are essential management tools in individual public administration entities and intended to ensure that public resources are used in accordance with the Law. However, the SAO SR findings indicate that audit as a management tool is not used sufficiently, it does not focus on significant risks, but focuses more on the formal aspects of funds and assets management. The most important audit question is whether the funds were spent economically, efficiently and effectively.

The SAO SR considers the unused potential of internal audit by individual chapter administrator as an extremely serious problem. Today, internal audit serves rather to the middle management to eliminate formal deficiencies and less to the top management of ministries. This situation is not due to the insufficient quality of internal auditors, but probably to the low interest by the responsible people to use the audit to control the activities and processes associated with the decisive volume of resources used. Internal audit is an important management tool intended to serve the organisation management to focus on the essential areas of their activities and to obtain assurances do not having serious problems associated with the use of funds and assets, as well as in fulfilling their mission.

Almost every SAO SR audit documents problems and shortcomings that could not arise along a functioning audit/internal control system. The consequences of insufficient internal quality in individual audited entities force the SAO SR to continue addressing the basic issues of compliance with budgetary rules and laws associated with the public resources use. We perform and will perform such audits despite the fact that our the mission is to find out how economically, efficiently and effectively the objectives of individual public policies are met and inform the National Council of the Slovak Republic objectively and impartially, as a body to which the SAO SR is obliged to do so.

I have said several times that control and audit are organic part of management and applies not only to the private sector but also to the public sector. I wish that the results of the audit activities by the SAO SR should not be only considered as a pillory for responsible bodies, organisations and their management. It should represent a possibility for conclusion that the use of national and European resources was not only in accordance with the Law, but used for right matters and in the right way.

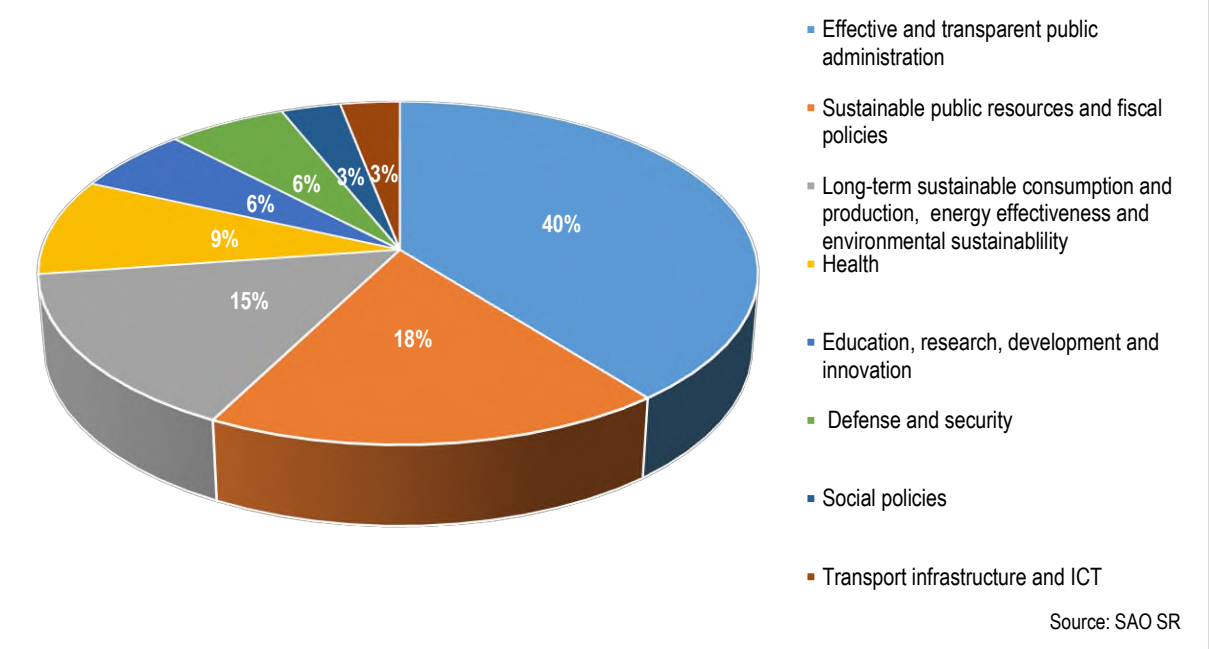
Audit plan and results

The document about strategic focus was the starting point for determining the eight priority areas of the Office audit activities for 2018. The European Structural and Investment Funds, as an important financial instrument, was also included in the strategic areas of audit activities by the SAO SR. The criteria for the selection of priorities were also the volumes of public expenditures spent in individual areas on the implementation of public policies, as well as the international comparison, which shows in which areas the Slovak Republic lags the most. The proposals for the topics of audits also took into account the risks in the area of public resources identified by the audit in previous years.

Based on the above, 23 audit programmes were prepared. The plan also included seven audits, which arose from various initiatives. **The audit activities plan for 2018 thus contained 30 audits, 4 preliminary studies and 2 analytical reports.** However, the submitted report about audit activities also contains information from five audits actions started in 2017, but due to their complexity and scope were completed in 2018. Two audits from the 2018 plan will be completed during 2019 for the same reasons and cannot be presented in this report. This means that the content of the report includes information from **33 audits completed in 2018, four preliminary studies and two analytical reports.**

The most numerous group consisted of audits focused on efficient and transparent public administration. The second group focuses on sustainable public finances and fiscal policy, sustainable consumption and production, energy efficiency and environmental sustainability, and health care. Two audits focused on education, research and innovation, and an equal number on defence and security. One audit focused on social policies as well as transport infrastructure and information and communication technologies. The following graph shows the structure of the focus of audits according to priority areas.

Graph 1 Focus of audit activities according to priority areas



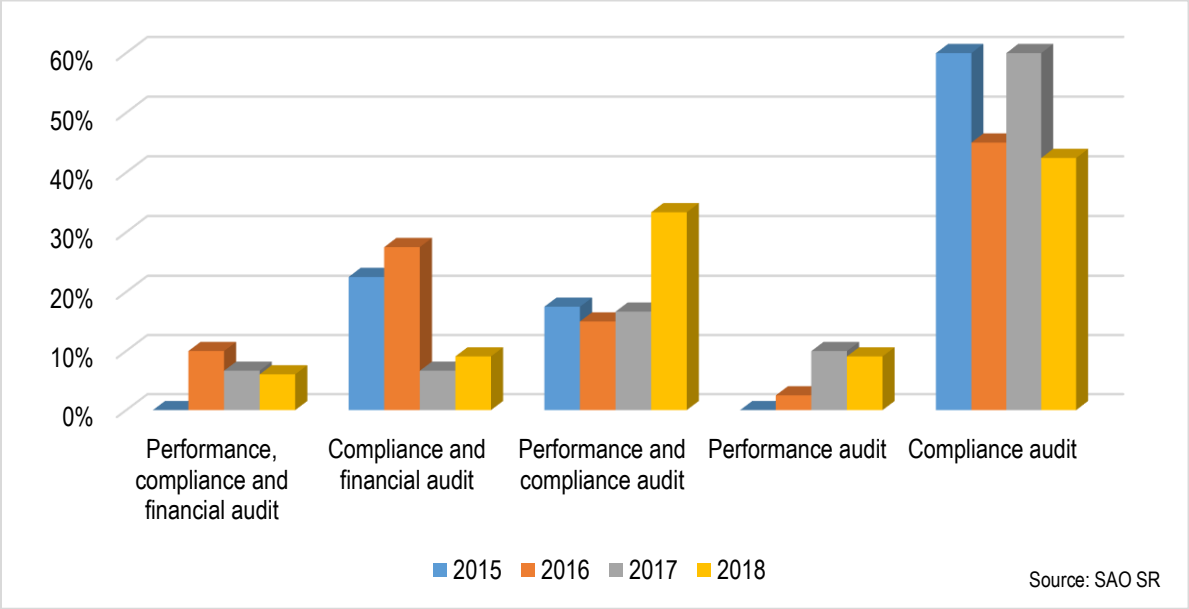
Source: SAO SR

Of the 33 audits completed in 2018, 14 were compliance audits and three were performance audits. Other audits were a combination of the principles of compliance audit, and financial and performance audit - see graph 6. Three hundred thirty one public administration entities were inspected.

The structure of types of audits has changed in the last four years. There was a decrease in the share of compliance audits resp. combined compliance and financial audit. Compared to 2015, the percentage of compliance audits decreased from 60% to 42.4% in 2018, and the number of combined compliance and financial audits decreased from 22.5% to 9.1%. The SAO SR has the ambition to increase the number of audits aimed at assessing ex post value for money, e. i. how effective and with what effects public resources have been expended. The Office is succeeding fulfilling this ambition mainly in the last two years of the evaluated period. The share of performance

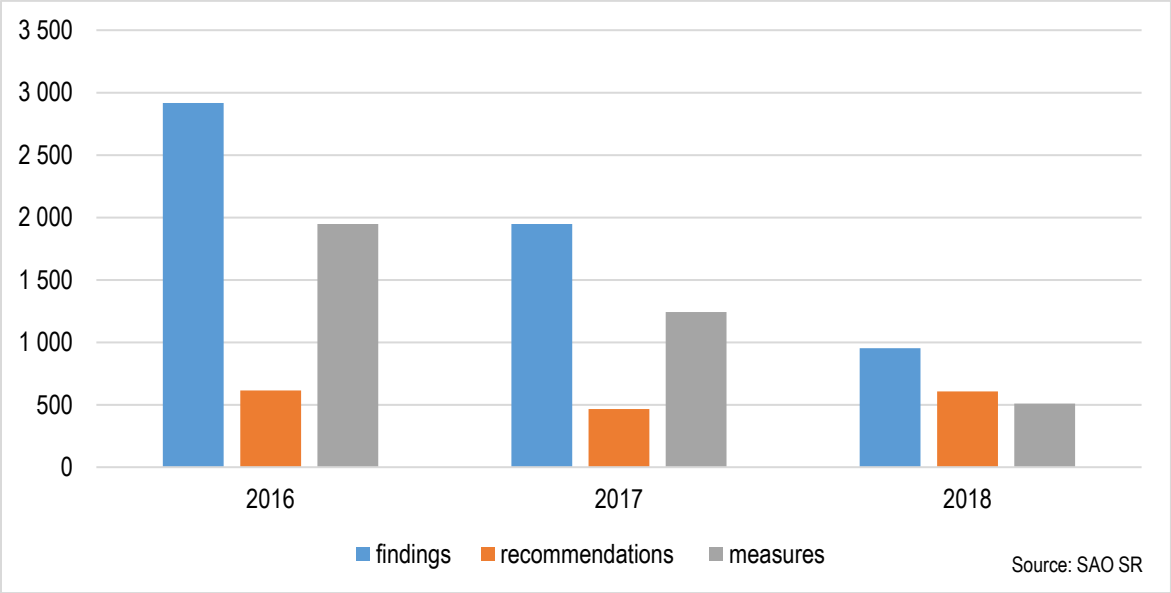
audits increased to 9.1% in 2018 and the share of combined performance audits with compliance elements reached as much as 33.3% in 2018.

Graph 2 Audits according to their type in 2015 – 2018 in percentage

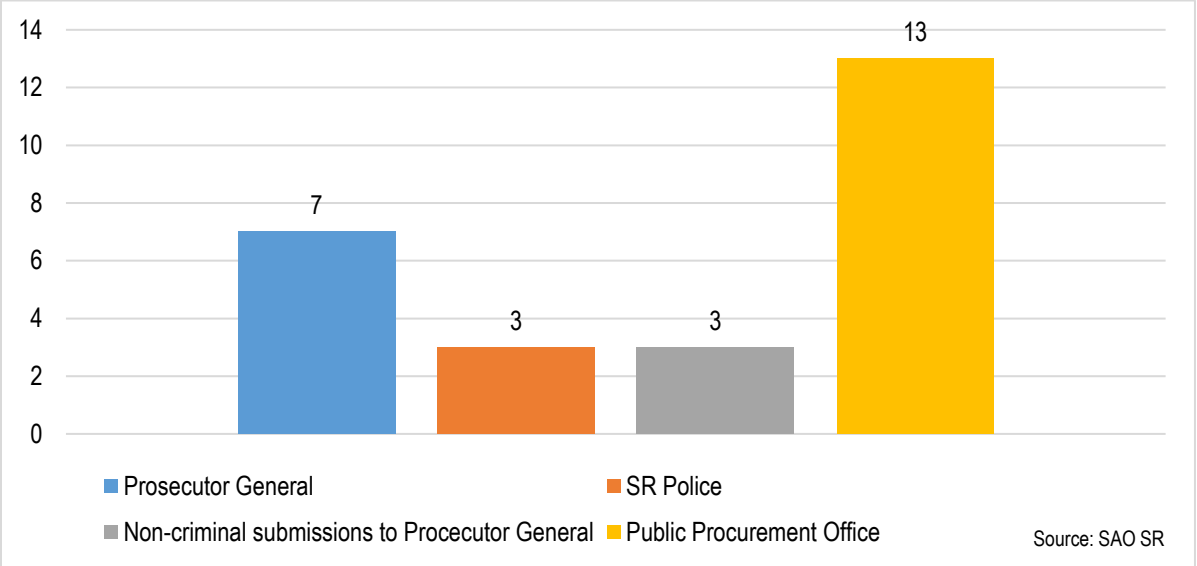


The number of findings, measures and recommendations for 2018 is shown in the following graph. In this context, it should be emphasised that the change in the audit structure is also reflected in the statistics about findings, measures and recommendations. The nature of performance audits is other than compliance or financial audits. In these cases, the recommendations mainly concern problems of a systemic nature and there is objectively less of them compared to accounting controls. The emphasis on a higher share of performance audits is then reflected in a lower number of findings and thus the proposed measures and recommendations.

Graph 3 Findings, recommendations and measures



The most serious findings of suspicion about criminal activities were passed on to law enforcement authorities. **In 2018, the SAO SR filed 10 criminal reports.** According to the evaluated degree of seriousness and jurisdiction, two criminal reports were filed with the General Prosecutor's Office of the Slovak Republic, five criminal reports with the regional prosecutor's offices and three criminal reports with the Slovak Police. Representatives of the SAO SR

also sent **3 non-criminal notifications to the Prosecutor's Office and 13 notification to the Public Procurement Office**. An overview of is in the following graph.

Graph 4 Overview of transfers to partner organs