



SIGMA

**Support for Improvement in Governance and Management
in Central and Eastern European Countries**

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SLOVENIA FINANCIAL CONTROL¹ ASSESSMENT 2001

1. Introduction

In 2001 the Slovenian government had 16 ministries, including the Government office. The Ministry of Finance had a total staff of some 5 000 out of which about 320 work in the central administration and some 2 500 and 2 300 in the Tax and the Customs Administration respectively. There are some 28 000 persons employed in the state administration in total.

2. Baseline Questions

2.1. Is a coherent and comprehensive statutory base defining the systems, principles and functioning of financial control in place?

Baseline achieved. (*1999 Baseline partially achieved and. 2000 Baseline achieved*). The Public Finance Act of 30 September 1999 covers most elements of the budget process, from preparation to final accounting, including implementation, internal control and internal audit. The Act covers central as well as local government budgets. Section 10 of the Public Finance Act deals specifically with budgetary control and establishes that the direct budget spending units shall set up adequate forms of internal control on the basis of general guidance by the Ministry of Finance. This Ministry also has a central responsibility when it comes to exercising as well as co-ordinating control over the execution of the budget.

On the basis of the Act on the Implementation of the Budget, spending agencies have a clear control responsibility with regard to financial, material and accounting operations, both in terms of lawfulness as well as appropriateness. The Public Accounting Act, passed in March 1999, obliges larger legal entities under public law and determined by the Ministry of Finance to establish internal audit. The Customs Law, enforced since 1st January 1999, and the Law on the Customs Service of 30 June 1999 were largely inspired by the existing EU legal frameworks and provide an adequate, statutory basis for collecting duties and preventing and pursuing irregularities in this area.

2.2. Are relevant management control systems and procedures in place?

Baseline substantially achieved. (*1999 and 2000 Baselines partially achieved*). Since the execution of the 2000 budget, ex-ante control of budgetary transactions is completely decentralised in line ministries and other first level spending units. A first appraisal of this reform will be delivered with the report of the Court of Audit on the implementation of the budget, due to be delivered in October

1. The rating has four categories: baseline achieved; baseline substantially achieved; baseline partially achieved; baseline not achieved.

2001. This decentralised scheme of budget execution can work satisfactorily once proper internal audit is in place in the budget spending units, which is still ongoing work.

A functional and economic classification of the Budget, with an accounting database system (MFERAC) managed by the MoF, including instructions on commitments, payments and accounting provides a sound basis for internal financial control, although it appears that the control procedures could be further improved. EU Funds are integrated in the budget and the accounting system, which should facilitate the establishment of a satisfactory audit trail. All EU funds are separately identified (e.g. "PHARE-CFCU" for the identification of the EU part of co-financed programmes), and accounted for on the budget lines according to their purpose. The identification also serves as an instrument to ensure that DIS procedures for tendering and contracting are followed, including for the co-financing part. The central accounting system also provides support for the preparation of advance expenditure plans and in-built controls on the availability of sufficient budgetary appropriations. This includes controls on expenditure requests in relation to expenditure plans. Coding of expenditures is carried out by the accounting staff on the basis of supporting (and mandatory) documents. Timeliness of management reporting, including expenditure information is possible using the MFERAC system. The biggest challenge in the recent period was to ensure full coverage and connection of budget institutions by the MFERAC system and this will be completed in 2001.

The National Fund is operational and has been busy with the finalisation of the systems and procedures related to the SAPARD programme. Even by Slovenian standards, the National Fund remains a very small organisation and its capacity to deal with its responsibilities in the framework of extended decentralisation of EU-funds should be carefully assessed. The national accreditation process for SAPARD was completed by June 2001 and is now expecting accreditation at the EU level. The Central Financing and Contracting Unit (CFCU) continues to function satisfactorily. The Slovene authorities will need to take urgent steps to develop an appropriate implementing agency if decentralised management is to be achieved for ISPA in accordance with regulation 1266/99 by the target date of end 2001. If, as it is now foreseen, the CFCU will act as an ISPA implementing agency in the context of the extended decentralisation, this will add substantially to its current responsibilities.

2.3. *Is there a functionally independent internal audit/inspectorate mechanism with relevant remit and scope in place?*

Baseline partially achieved. (1999 and 2000 Baselines partially achieved). The Public Finance Act of 30 September 1999 (article 100) specifically provides for the establishment of “system of internal control and internal audit” in the spending units of the central government. Internal audit is defined as ex post financial audit “as well as an audit of effectiveness, efficiency and performance”. The spending units are made responsible for setting up adequate forms of internal control on the basis of common criteria determined by the Minister of Finance. These criteria were laid down in the “Rules on common criteria for organisation and procedures involved in financial control of direct spending units of the budget of the Republic of Slovenia” issued by the Minister of Finance in February 2000. They cover both internal control and internal audit. It results from the combination of the law and of the “Rules on common criteria” that the internal audit function can be carried out either by an internal audit service operating within spending units or by tendering it to external auditors. The way the functions of internal control and internal audit is described in these texts still contains ambiguities, so that the Ministry of Finance plans to re-draft parts in order to better clarify the different responsibilities in this area. The planned new legal provisions should aim at a better distinction between internal control, internal audit and inspection functions and should be reflected in amendments to the Public Finance Act (target date: end of 2001) and in related secondary legislation (target date: mid-2002).

With the adoption of the Public Finance Act, the existing Budget Inspection Service in the Ministry of Finance has been turned into a Service for Budgetary Supervision comprised of three departments

(inspection, auditing and certification of EU funds, development of internal financial control). This body exercises thus both operational audit and inspection activities and general methodological guidance and co-ordination vis-à-vis the internal audit services that are to be established in budget institutions. The total staff number is 17 (21 planned). The inspection tasks are carried out over all budget institutions by the Inspection and Control Department within the Service (7 staff). These tasks are defined by law as "control of the financial, material and accounting operations of users" and concentrate on regularity and lawfulness of the budget transactions. There are presently 45/50 inspections of that type carried out each year. The inspectors have, under conditions defined by law, powers to stop payments and propose penalties in accordance with the provisions of the Law on Public Finance.

During 2000-2001, the department responsible for EU funds (6 staff for 8 planned) has been mostly involved in the preparation for accreditation of the SAPARD agency, and the pre-accreditation review linked to it. In this capacity, the Service for Budget Supervision co-operates closely with the National Fund and a new “accreditation package” is being prepared after the rejection by the European Commission end of last year of the initial national accreditation. The Service for Budget Supervision has also been appointed as the certifying body for the SAPARD programme in Slovenia.

There is no internal audit manual, whether general or specific at the moment. The department responsible for development of internal financial control (1 staff, 3 planned) has started to draft common guidelines to perform internal audit in budget spending centres, that should be ready in September 2001 at the latest. This department has also started to define and organise training programmes for the newly recruited internal auditors in co-operation with the Slovenian Institute of Auditors. Training leads to certification and there are some such certified auditors currently operating in budget institutions. The needs for training is important and nothing will become operational as long a sufficient number of internal auditors are not trained. 40 internal auditors have already benefited or are benefiting from these programmes. However, there now exists a concern that the training programmes, originated from the private sector, need to be better tailored to fit with the public administration context and its specificity.

Most ministries have now at least one internal auditor employed. There are 43 authorised positions at the central government level, out of which 23 are currently occupied. For its own audit needs at central level, the Ministry of Finance has e.g. only one internal auditor (target number is 4) but the Tax department has 4 (for 8 planned).

2.4. Are systems in place to prevent and take action against irregularities and to recover any amounts lost as a result of irregularity or negligence?

Baseline partially achieved. (1999 and 2000 Baselines partially achieved). Prevention is based on the segregation of functions regarding tendering, contracting, committing, payment orders and payments as prescribed in regulations and procedures. In case of recovery of losses resulting from irregularities, the standard basis of this is in the penal or fiscal code. However, the budget inspector of the Service for Budget Supervision in the Ministry of Finance can issue an order to remedy a violation of a law or regulation or propose to initiate a procedure with regard to an economic or criminal offence.

The Customs Administration's Inspection Body as well as the Tax Inspectors and the Tax Investigators have specific enforcement and recovery powers. The general set up for fight against fraud and corruption seems appropriate with good and co-operation co-ordination between the various insitutions involved. In order to further improve it, the Government plans to establish a specific office for the prevention of corruption, responsible for providing expert services in that field, prepare a national anti-corruption startegy and co-ordinate its implementation.

3. Capacity to Further Develop the System

The basic problem remains, namely that the capacity to manage the necessary changes in internal financial control is limited and that action is needed to deal with the requirements for the National Fund, SAPARD and ISPA.

Priority must be given to implementing the legislation on public internal financial control. There has been evidence of commitment to change in the establishment by a small number of line ministries of an internal audit function, but it is not operating fully and much remains to be done in line ministries and in developing co-ordination and guidance by the Ministry of Finance. The current state of financial control is, from a perspective of compliance and regularity audit, more satisfactory than from a financial or performance audit perspective. Moreover, even in the regularity audits, audit methodology and techniques used can be improved and certainly standardised. Financial control beyond the scope of regularity checking is still under-developed and major organisational developments (e.g. recruitment and training) have to take place.

4. Summary and Next Steps

Financial control is partially in line with good practices in EU member states. There is a common understanding of the main features of reform, but capacity to manage the changes is limited. A clear and strong strategy including e.g. production of a concept or policy paper for public internal financial control is lacking, in particular when it comes to setting up internal audit and even if progress in that area has to be recognised. The current level of capacity can only lead to partial and scattered results with small impact on the whole system.

Priority should be given to the following actions:

- Priority should be given to the development of the internal control and internal audit structures in line ministries;
- This could be helped by drafting and adopting at higher level a Government strategy defining the targets to reach and planning the necessary resources to allocate;
- Training has to be redefined to increased relevance for internal audit in the public sector;
- Internal audit standards/guidelines need to be developed and used in practice;
- An internal audit manual should be prepared as a matter of urgency, drawing as necessary on those already produced in other candidate countries and based on international internal auditing standards, whilst ensuring effective ownership of Slovenian officials, by e.g. using the draft manual in pilot audits;
- The capacity of the National Fund to exercise its full responsibility in the framework of extended decentralisation scheme for EU-funds should be assessed;
- An action plan for decentralised management for ISPA by the end of 2001 should be drawn up with a detailed analysis of the implementing agency structures required and the necessary systems and procedures.
- An external review of the public internal financial control arrangements should assess the state of progress and the needs for further improvements.