



SIGMA

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SLOVAK REPUBLIC PUBLIC SECTOR EXTERNAL AUDIT¹ ASSESSMENT 2003

1. Introduction

The Supreme Audit Institution (SAI) of the Slovak Republic is the *Najvyšší Kontrolný Úrad* (the Supreme Audit Office or the NKÚ). The NKÚ finds its legal basis in articles 60-63 of the 1992 Constitution, as amended in 2001, and the NKÚ Act of 1993. The NKÚ mandate has been expanded by amendments to the Constitution and by the NKÚ Act of 2001, which strengthened NKÚ's competences in auditing public funds, resulting in better control of the National Property Fund and of EU funds. The NKÚ is headed by a president and two vice-presidents elected by Parliament – the National Council (*Národná Rada*).

The NKÚ currently has a staff of 236, of which 160 are auditors. In addition to the headquarters in Bratislava, there are regional offices in Košice and Banská Bystrica. The institution prepares annually 88 reports based on approximately 229 individual audit protocols. The NKÚ budget for 2003 is SK 130 million (€ 3.16 million). This represents an increase of approximately 1.5 % compared to 2002.

2. Baseline Questions

2.1 *Does the SAI have clear authority to satisfactorily audit all public and statutory funds and resources, bodies and entities, including EU resources?*

Baseline substantially achieved (1999 and 2000 baselines not achieved; 2001 and 2002 baselines substantially achieved). The audit mandate has been substantially expanded by the changes to the Slovak Constitution introduced in February 2001. Since that date the NKÚ's audit mandate covers all funds passed through the state budget, extra-budgetary funds, the management of all state property, the use of funds from abroad (including the EU), and audit companies where the state holds a share of more than 34%. Its mandate covers the audit of end-users of funds, if those funds originate from the state budget or the EU. The NKÚ may audit taxes, fees and fines which are the income of the state budget. The NKÚ can audit all state grants and subsidies. The mandate of the NKÚ extends only to the conditions in which state funds are transferred to territorial bodies (regional and local governments) and does not cover the way in which these funds are spent. As a result, in 2002 funds transferred to territorial bodies (approximately 20% of the state budget) were not audited at all. Since 2000 the NKÚ, supported by the Minister of Finance, has tried to extend its mandate to the spending of transferred funds as well. So far there is no constitutional majority in Parliament in favour of extending the competencies of the NKÚ.

The NKÚ's mandate is not very specific. It is not explicitly stated that the NKÚ should audit economy, efficiency and effectiveness. However, there are no legal limitations to the scope of approaches and methods that the NKÚ can apply for financial audits or performance audits.

¹ The rating is comprised of four categories: baseline achieved; baseline substantially achieved; baseline partially achieved; baseline not achieved.

In accordance with the NKÚ Act, the final accounts of the National Bank are audited by an appointee of the NKÚ. In line with the provisions of section 2 of the Act, the NKÚ can audit the Bank's management of the revenue and expenditure accounts of the state budget, state financial assets and liabilities, and state specific funds, the payment of expenditure accounts, the performance of activities connected with state obligations, and the resolution of problems connected with incorporating fines into the state budget.

Article 5 of the NKÚ Act states that each year in autumn the NKÚ is to prepare its opinion on the state budget proposal for submission to the National Council. This opinion concerns mainly the regularity of the preparation of the state budget (whether budget and accounting rules were followed). This mandate, which makes the NKÚ a part of the budget preparation, should be used with great care. Involvement in political issues can negatively influence credibility and independence. In 2002 the NKÚ began the sensitive audit of privatisations during the period 1994-1998 with the development of an audit protocol. For the period 2003-2004 it has developed an audit programme. Due to a lack of resources, it will start with the most strategic privatisations (gas, electricity), concentrating on the observance of contractual obligations during and after the privatisations.

2.2 *Does the type of audit work carried out cover the full range of regularity and performance audit set out in INTOSAI auditing standards?*

Baseline substantially achieved (1999 and 2000 baselines partially achieved; 2001 and 2002 baselines substantially achieved). NKÚ checks include legal requirements, economic results, income and expenditure, assets and liabilities. In the annual report to the National Council, audit results are presented in a summary opinion. A clear distinction is not made between a certification of the financial statement of the Slovakian State and the performance aspects of the government's operations (i.e.a distinction between regularity/financial audit and performance audit). The NKÚ also assesses, as part of its audit activities, the level of expertise of the internal audit/control functions of the government administration, but not yet in a systematic way the quality of functioning of the internal audit or controls. The focus is more on identifying errors and shortcomings in the state budget. The audit work carried out by the NKÚ can be characterised as mixed audits: aspects of regularity, financial management and economy, and efficiency are investigated and reported. An explicit opinion on the financial statement is not formulated. The audit work carried out is not in line with international standards for attestation audit and performance audit (cf. INTOSAI Auditing Standards/EU Implementing Guidelines). The Sigma Peers had recommended to the NKÚ in 2001 to adopt a wider range of audit approaches, to give greater emphasis to evaluating financial management, and to develop its opinion into a full attestation audit providing positive assurance. In 2002 these recommendations were not yet translated into concrete actions. Though the NKÚ achieved the baseline substantially it should seriously consider its future audit approaches in order to develop its role as an adequate supreme audit institution controlling, together with Parliament, the government's operations and reporting. The Peers' recommendation to start with pilot audits is still valid. If attestation and performance audits are set up according to INTOSAI standards and carried out with the support of an EU Member State, they would certainly contribute to the further development of the NKÚ.

2.3 *Does the SAI have the necessary operational and functional independence required to fulfil its tasks?*

Baseline substantially achieved (1999 and 2000 baselines partially achieved; 2001 and 2002 baselines substantially achieved). The independence of the NKÚ is legally safeguarded by its constitutional status, which includes a basis for the appointment and dismissal of its president and two vice-presidents. The personal independence of these three post-holders was further reinforced by the recent amendment of the Constitution's article 61.

The NKÚ has its own budget chapter. In accordance with Act no. 303/1995 on budgetary rules, the NKÚ budget is presented directly to the Committee for Finance, Budget and Monetary Affairs (CFBMA) of the National Council. As later amended, this Act also foresees arrangements for an external audit of the NKÚ, which should be performed by, or under the authority, of the National Council. The external auditor has still not been appointed by Parliament.

The NKÚ audit staff are appointed by the NKÚ. In this respect the institution is exempt from the Act on the Civil Service, according to which a Central State Civil Service Office is responsible for employment competition, training and promotion of civil servants for the entire state administration. The salaries of NKÚ auditors are regulated by the Civil Service Act. NKÚ staff participate in the State Service Training Programme. In addition, since 2001 the NKÚ has organised in its own training centre “methodological days”, which involve exchanges of experiences with the Ministry of Finance, in particular the Financial Control and Internal Audit Departments, and English language lessons.

The NKÚ determines the objectives, timing and content of its work, but the National Council can request the NKÚ to execute specific investigations. NKÚ reports are made publicly available from the Office’s web site, and extracts are published in the NKÚ journal. In addition, the President organises press conferences every month on ongoing activities.

2.4 *Are the SAI’s annual and other reports prepared in a fair, factual and timely manner?*

Baseline substantially achieved (1999 and 2000 baselines partially achieved; 2001 and 2002 baselines substantially achieved). The NKÚ must submit an activity report to the National Council on or before 30 March. Before the end of June the NKÚ has to submit its annual report on the final accounts of the state budget. This report basically describes violations of appropriation law. The statutory timetable for the delivery of this report is stipulated in the Law on Budgetary Regulations (no. 303/1995 Coll.). The NKÚ audits the closing of the books of each budget chapter, and employs a contradictory approach before finalising reports.

2.5 *Is the work of the SAI effectively considered by government and parliament, e.g. by a designated committee that also reports on its own findings?*

Baseline substantially achieved (1999 and 2000 baselines substantially achieved; 2001 and 2002 baselines partially achieved). The NKÚ has a good working relation with the Committee on Finance, Budget, and Monetary Affairs (CFBMA) of the National Council, which is the primary recipient of NKÚ reports. Besides the public accounts, the CFBMA handles a range of issues related to budget and finance. The President of the NKÚ has free access to parliamentary sessions dealing with NKÚ matters. He is in contact on a monthly basis with the Committee; and once every three months he attends meetings of other parliamentary committees to explain audit reports. Once or twice a year, he visits the Speaker of the National Council. The CFBMA values highly the performance audit reports which the NKÚ has been preparing since 2001.

The follow-up procedure is defined in the NKÚ Act and works accordingly. In the event of a critical audit report, the auditee is asked to describe the steps which are planned in order to comply with the NKÚ recommendations. If the auditee does not comply, the NKÚ informs the responsible minister and then the National Council. The auditee must respond, normally within six months, indicating the measures being taken to remedy the defects found in the audit. If the auditee does not comply, the NKÚ again informs the responsible minister and then the National Council. A follow-up to determine whether the recommendations have actually been implemented is not part of the procedure. In practice in the frame of its audit activities the NKÚ consequently audits the realisation of the measures taken..

The relations of the NKÚ with the government, and specifically with the Ministry of Finance, are cordial but very businesslike. The Ministry of Finance welcomes the increasing quality of the opinions of the NKÚ and the feedback it receives on its own activities. The NKÚ mandate to assess the state budget proposal works in a preventive way as far as the Ministry of Finance is concerned: the ministry anticipates the remarks of the NKÚ, knowing that the Parliament will follow the NKÚ opinion. On the other hand, Parliament's alleged reliance on NKÚ's opinion could put the Office in an undesirable position.

2.6 *Has the SAI adopted internationally and generally recognised auditing standards compatible with EU requirements, and how far have they been implemented?*

Baseline partially achieved (1999, 2000, 2001 and 2002 baselines partially achieved). Work is still underway on incorporating INTOSAI Auditing Standards, and the EU Implementing Guidelines for these standards, into the current work of the NKÚ. In June 2002 the NKÚ published its own rules for auditing activities, which are based on INTOSAI standards and practical experiences, and aim to establish a unified methodology for NKÚ auditing activities. The rules define precisely the roles and responsibilities (who has to do what, when and why) of the actors involved in an audit in its various phases and especially in the steps to be taken into account in the reporting phase. In the second half of 2003, NKÚ will start an in-house training programme for the entire audit staff.

There is an audit manual for internal use, with a number of specific guidelines for the audit process. Whether this manual complies with the above-mentioned new rules is not clear. The Office has a defined organisational structure and detailed job descriptions. There is detailed audit planning, and an annual and semi-annual plan. In 2002 the Board approved the "Concept of Development of the Supreme Audit Office of the Slovak Republic for the period of 2003-2005".

The NKÚ has adopted a Code of Ethics for its auditors, based on the code adopted by INTOSAI.

2.7 *Is the SAI appropriately aware of the requirements of the EU accession process?*

Baseline achieved (1999 and 2000 baselines partially achieved; 2001 baseline substantially achieved; 2002 baseline achieved). The preparations made by the NKÚ to comply with EU requirements related to external audit have further intensified during the past year. During that period the NKÚ's EU Funds Audit Unit practised the developed methodology required to fulfil its role as Certifying Body for the SAPARD programme in Slovakia for the first time, to the entire satisfaction of the EU. The NKÚ has also participated in EU accession preparations within the framework of co-operation between the CEEC SAIs and the ECA. In view of the increasing importance of correct spending of EU funds, intensive co-operation with the ECA is recommended.

3. Capacity to Further Develop the System

The NKÚ participated in a Sigma Peer Review, which began in the second half of 2001 and was concluded in March 2002. The recommendations of the Peer Review report have partly been taken into consideration for incorporation into the Concept of Development 2003-2005. Although the NKÚ has made a proposal, no twinning has yet started. However, consultations have begun for intensive co-operation with the National Audit Office of the United Kingdom. In order to develop into a full-fledged functioning SAI working in accordance with internationally accepted auditing standards, close co-operation with an EU Member State is indispensable for the NKÚ. Twinning light projects or bilateral funding could be helpful during the last year of Slovakian's pre-accession status. In the event of a standstill in the further development of the institution towards a professionally operating, well respected organisation, the NKÚ could be faced again with a discussion on its role and

responsibilities brought up by the Slovak Government and its administration, as has happened before. It will depend on the ambition and ability of NKÚ's top management to avoid such a situation. The Office seems to have good managerial competencies, with an appropriate focus on the efficiency and effectiveness of audit work.

4. Summary and Next Steps

External audit partially meets the requirements of INTOSAI Auditing Standards and EU Implementing Guidelines for the effective external audit of public funds and resources. The NKÚ should make an effort to implement the recommendations of the Sigma Peer Review, including the development of audit methods and competencies for undertaking attestation audits and performance audits. The NKÚ should further develop its follow-up mechanisms to ensure compliance with and implementation of its audit recommendations. The NKÚ should elaborate the Concept of Development 2003- 2005 into a Implementing Strategic Development Plan.

Priority should be given to the following actions:

A. Should be applied (or started) in the short term (or next 12 months):

- The NKÚ should reconsider its audit approach and bring it into line with INTOSAI auditing standards. This includes, among others, competencies, methodologies and techniques to undertake a formal certification audit of the state budget. This process should be supported by pilot audits in the various types of audit.
- The NKÚ should with highest priority actively seek to obtain relevant technical assistance from the EU, including through twinning (light projects), to ensure its further development.
- As 20% of the state budget, spent by territorial bodies, is not audited at all, the NKÚ should make a special effort to convince the Parliament to revise its decision with regard to the auditing of transferred funds.
- The National Council and the NKÚ should actively seek to develop further effective follow-up procedures on audit findings.

B. Should be applied (or started) in the medium term (or next two years):

- The NKÚ should seek peer assurance to assess the progress resulting from the current changes and reform process.