

## Summary of the audit report *Forest Management*

The Court of Audit of the Republic of Slovenia carried out a performance audit of operations of the Ministry of Agriculture, Forestry and Food (hereinafter: the Ministry), active since 10 February 2012 as the Ministry of Agriculture and the Environment, with its fields of work including those from the Ministry of the Environment and Spatial Planning in terms of environment, the Slovenian Forest Service (hereinafter: the Service) and the Farmland and Forest Fund of the Republic of Slovenia (hereinafter: the Fund) in terms of forest management.

The audit objective was to express an opinion on whether the Ministry, the Service and the Fund were efficient, effective and economic in managing forests in the year 2009.

In establishing a basis for forest management, the Ministry *was not efficient*, since it failed to prepare a National Forest Programme and a Five-Year Operational Programme, which would contain measurable, verifiable and time-identifiable objectives. The Ministry did not establish conditions for the efficient monitoring of the achievement of forest management objectives defined in forest management plans of forest management units (hereinafter: GGN GGE), for it adopted GGN GGE, which do not indicate objectives of individual measures and do not define measurable as well as quantity-, time- and space-identifiable ten-year objectives of forest management.

The Ministry *was not efficient* since it failed to establish conditions for the provision of forestry control which thus did not take place in 2009; the Ministry failed to initiate activities for the preparation of a single record of the forest area and neither did it provide funds for co-financing the initial activities of associations of forest owners and co-financing programmes thereof.

In the year 2009, the Ministry *was not efficient in exercising control over the forest management* since it did not draw up a report on the implementation of the National Forest Programme and its Five-Year Operational Programme. It thus did not have an overview of the achievement of the set objectives. The Ministry did not start activities for amending and supplementing the Act on Forests, despite the fact that in the year 2009 it obtained an assessment of the forestry situation, which indicated the key problems in forestry and proposals for forestry development strategy in accordance with the objectives and policies of the National Forest Programme.

The Service *failed to establish conditions for the efficient forest management* since forest management plans were not harmonised in terms of scope and time of the implementation of envisaged measures; it did not prepare silvicultural plans, which provide the basis for the adoption of decisions on felling and execution of silvicultural and safety work; it did not include in the plans for all forest areas in the Republic of Slovenia all the data required for quality and timely planning of measures; and failed to monitor the implementation of measures under GGN GGE and silvicultural plans systematically, promptly and transparently. In the year 2009, the Service did not have an information system established, which would facilitate easy, fast and reliable integration of various data records (records on silvicultural plans, records on felling and records on silvicultural and safety work) and thus an overview of the planned measures, decisions to implement measures and the implementation of decisions issued.

In promoting felling in the year 2009, the Service *was not effective* since in all the forests the felling amounted to only 65.8 per cent of the allowable cut while in private forests this share amounted to 57.8 percent. The Service failed to establish conditions for *the efficient* monitoring of the realisation of the allowable cut, as it did not link and harmonise all levels of the felling planned nor did it draw up silvicultural plans for all sections or exercise consistent control over all the cutting area or record partial cuttings. Measurements on permanent sample plots have shown that in average the illegal cutting represents 27.1 percent of the total harvest in the Republic of Slovenia. The Service recorded only 74,041 cubic metres of illegal cutting, which amounts to 2.2 percent of the total harvest in the Republic of Slovenia. In the year 2009, the Service *failed to adopt efficient measures* for the improvement of the felling and the record thereof. It also did not establish conditions for monitoring the timeliness of implemented decisions on sanitary felling and did thus not ensure timely execution of the work in forests. Therefore, there exists a risk that the sanitary felling was not completed on time.

The Ministry *was not efficient* in the field of investments in forests because the funds it provided to the Service were sufficient for the realisation of only 55.2 percent of the planned work while at the same time it did not consider the possibility of other forms of incentives for a wider range of investments in forests and did not propose amendments to the regulations. The Service did not reach the objectives of the Programme of Works and Investments in Forests for the year 2009 as all the silvicultural and safety work was carried out on a smaller scale than planned. The amount of decisions it issued was in accordance with budgetary resources provided for the co-financing of such works and it did not issue decisions for the execution of all necessary works but acted selectively regardless of the degree of urgency of the works.

Due to unclear definition which works fall under a public forestry service as defined in the Act on Forests and relevant regulations and which under a marketing activity, there exists a risk that in the year 2009 the Service charged the contracting authorities that concluded with the Service technical cooperation agreements for works that had already been paid from the budget.

The Ministry *was not efficient* for it did not create a legal basis to be able to conduct in the year 2009 a closed tender for the implementation of the measure to increase the economic value of forests (measure 122) under the Rural Development Programme of the Republic of Slovenia 2007-2013 (hereinafter: RDP 2007-2013), which would allow for the selection of the best co-financing projects. It also did not consider the possibility of reducing the percentage of investment co-financing under measure 122, which would facilitate the co-financing of a larger number of investments and increase the economic value of forests. The Ministry failed to allocate funds under the public tender for measure 122 separately by the purpose of co-financing. Most funds were thus used for forestry machinery and equipment and only a small part for forest roads.

In the year 2009, the Ministry did not contribute towards increasing the accessibility of forests by means of forest roads, since it did not initiate activities for the amendment of regulations which would simplify the construction of forest roads and did not provide the Fund with funds for such construction. During the year concerned, the Service was preparing plans of zero lines for the construction of forest roads not planned under GGN GGE.

In 2009, the Ministry failed to alter the Methodology for calculating the amount of fee for the maintenance of forest roads, which is based on outdated standards for the work in forests and therefore does not constitute an adequate basis for the Service to calculate costs per kilometre of forest roads maintained. Owing to the fact that the Service in calculating funds for the maintenance of forest roads for

the year 2009 failed to take full account of the Methodology for calculating the amount of fee for the maintenance of forest roads as well as market prices of hourly rates for workers and material prices, there exists a risk that the calculation of costs per kilometre of forest roads maintained for the year 2009 is irregular. Since the Ministry in 2009 concluded with the Service and municipalities agreements on the maintenance of forest roads as late as in the summer, the winter maintenance of forest roads was not carried out in time or was not carried out at all. Forest contractors were thus caused economic damage. The Ministry did not perform an analysis and assessment of the efficiency of the system of maintaining forest roads respectively failed to consider various options for the arrangement thereof, both in terms of proving funds and the way of ensuring the execution of works.

As regards the transfer of forests in the year 2009, the Fund *was not effective*, since as at 31 December 2009 there was unresolved ownership situation for the forest area of 23,828 hectares. Therefore, there exists a risk that the Fund failed to manage those forests in 2009 and *did not earn income in the estimated amount of EUR 642,389 from the management thereof*. For its operations in 2009, the Fund used several unconnected databases on forest areas, which were incomplete and inconsistent. Therefore, there exists a risk that the condition of disclosed assets owned by the Republic of Slovenia and managed by the Service is irregular. As regards resolving the problem of the co-ownership of forests in 2009, the Fund *was not effective*, which hinders the execution of the work in forests. It did not propose to co-owners on its own initiative the termination of the co-ownership of forests; in case of several co-owners, it offered to purchase the joint property only from the interested co-owner and not from all of them. Therefore, it did not become the sole owner of the forest. The Fund carried out forest transaction contrary to the Resolution on National Forest Programme, for it partitioned a dense complex of state forests and exchanged it for several smaller and isolated plots respectively sold dense complexes of state forests covering more than 10 hectares.

The Ministry *was not efficient* in ensuring conditions for achieving the increase in the share of state forests, since it planned for the financing of the purchase of protective forests, forest reserves and special purpose forests the amount of EUR 148,422 for the year 2009, but the Fund was provided only the amount of EUR 3,422. The Fund *was not effective* in the purchase of the planned volume of forests and in the realisation of the objective to increase the share of state forests, as it planned for the year 2009 the purchase of forests in the amount of EUR 3,041,513 respectively about 800 hectares of forests but the purchase realisation was lower by more than a half.

The Ministry *was not efficient in establishing a basis for the management of forests owned by the Republic of Slovenia*, for it failed in the year 2009 to initiate activities for amending the Decree on concession for exploitation of forests in the ownership of the Republic of Slovenia, which defined the recognised amount of costs of labour and machinery and obliged the Fund to recognise costs for the implementation of the concession contract. The calculation of the recognised amount of costs of labour and machinery was based on outdated standards for the work in forests. Therefore, the calculated costs may have been much different from the actual costs incurred. Since in the year 2009 the Fund granted forest management concessions and the concession fee was determined by the Decree on concession for exploitation of forests in the ownership of the Republic of Slovenia, it is estimated that the Fund *generated income of up to EUR 16,092,255 less* than it would have if the forest exploitation had been determined in a free market and the works had been executed by other tenderers on the basis of a public tender.

The Fund acted *uneconomically* since in the year 2009 it reimbursed the concessionaires for the costs of maintaining forest roads in the amount of EUR 201,501 as there was no legal basis for the reimbursement of these costs and its income from the concession fee was that much lower. In the year 2009, the Fund

acted *uneconomically* since it transferred against payment the performance of duties related to the management of forests owned by the Republic of Slovenia to the Service, although considering the purpose of its establishment the Fund should have carried out such tasks by itself. Therefore, it created the risk of adopting inadequate solutions, paying unnecessary and excessive costs and lowering the volume of assets of the Fund, which could have been allocated to the purchase of forests. Moreover, the Fund acted *uneconomically* since it authorised the concessionaires to adopt all the Service decisions related to the work in state forests. Therefore, there exists a risk that the Fund did not have available all the information about the work in state forests and the concession fee was not determined correctly.

The Fund failed to conclude within the prescribed time limit annexes to concession contracts with concessionaires for the year 2009 and did not provide concession contract annexes to two concessionaires, which would determine the annual volume and dynamics of forest exploitation and concession fee payment. Due to the fact that the Fund was not updating the list of land under a concession, there exists a risk that the concessionaires did not execute their work in forests on the basis of the Service decisions related to divided, exchanged or purchased plots. The Fund *was not efficient* in exercising control over the execution of the work in state forests for it failed to provide in the year 2009 a system of control over the recording of all forest-timber assortments. Therefore, there exists a risk that not all the forest-timber assortments derived from forests managed by the Fund were recorded and that the concession fee was not determined correctly.

The Court of Audit of the Republic of Slovenia provided several *recommendations* and demanded the submission of a *response report* disclosing corrective measures pertaining to: the preparation of the plan of activities for proposing amendments to the Act on Forests in order to regulate the interconnection between forest management planning and silvicultural planning as well as planning and monitoring of measures on the basis thereof; preparation of the plan of activities for reforming the Service information system; preparation of the plan of activities for completing the transfer of agricultural land, farms and forests to the Fund; submission of the plan of activities for improving land and plot structure of state forests; adoption of internal rules and regulations to determine the recording of additionally felled unselected trees and selective felling as well as the method of informing the Forestry Inspection Service; and the supplementation of internal rules and regulations concerning the detailed definition of the GGN GGE content in so far as it relates to the presentation of the estimated felling on the basis of permanent sample plots.

Ljubljana, 18 May 2012