

Security of economic activity of territorial-administrative unit in Slovakia – municipality as a subject of safe financial operations

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Received: June 11, 2023 | **Revised:** June 25, 2023 | **Accepted:** June 30, 2023

DOI: 10.5281/zenodo.8335823

Abstract

The article deals with the issue of important elements of security and legitimacy of economic operations in the basic units of a Slovak municipality – in a village, district or city. Theoretically, it processes the current status of local government with its economic activity, while analyzing those tools related to economic processes, which have the task of ensuring safe, legitimate, but also efficient, effective or purposeful spending of funds for public administration. Among the most important attributes of economic security, we include the institute of the chief controller, the principles of budget creation and the introduction of European accounting standards in financial transactions of public administration.

Key words: security, financial operation, public administration.

Introduction

Just as it is necessary to perceive the impact of cultural, social or geographical aspects on the creation and administration of public affairs in individual areas and territorial units of public administration, it is also necessary to pay attention to their financing, the creation of financial relations and economic operations. Especially when looking at the security of transactions and economic operations in relatively independent territorial entities. Therefore, territorial-administrative units (state, region, respectively region, district, city, municipality, or other territorial or administrative unit) through their bodies represent a significantly differentiated structure ensuring the management of public affairs and the interests of their residents.

Whether we are talking about the oldest self-governing forms in our territory in the 13th century, or about the gradually changing units of territorial organization today, it is always a matter of choosing the best and strongest center of the given unit, effective division of work, scope and powers, effective vertical, or horizontal control, management, but also deciding on the usurpation and centralization of power at the highest level of administrative organization, or on the contrary, on leaving a certain autonomy, independence on the lower components of the territorial-administrative system of the state. As a result, the content of the term territorial self-government is also changing, and the related problem of decentralization appears, against the background of which territorial and administrative units in today's sense of the word are created. However, not only territorial, administrative, geographical or demographic territories, but especially economically stable and financially balanced entities, capable of covering even the smallest public interest, the satisfaction of which, in its essence, neither individuals nor legal entities of the private sector can take care of.

The question of the appropriate territorial-administrative division of the country has been an important socio-political question since ancient times and is undoubtedly one of the most pressing topics of the current socio-political scene. Especially in this modern era of current democratic institutions, the financial principle of management is the most favored community and society-wide events in society. One of the most important lines of justification for transferring the management of

public “welfare” to the lowest possible administrative units is precisely the transparent, expedient and effective, efficient, economical and also safe allocation of financial processes to various areas of local (partial) segments of public functioning.

In this article, we will focus on the intersection of the topic of financial operations, economic procedures and forms of budget variations in the basic unit of public administration in Slovakia, by which we understand a municipality, or a district or a city. It is the special focus on the principles of security and legitimacy in the economic operations of the municipality that will offer identification of the importance of this side of transparent spending of public resources.

Results

1. Management of a local municipality in Slovakia

For a better understanding of the location of the local municipality in the tangle of public administration bodies, especially self-government and its safe economic activities, it is appropriate to take into account the basic legislative regulations regulating the position of the municipality as the equivalent of a district or city in the Slovak public power structure. According to the European Charter of Local Self-Government (1985), we understand the European regulation of the establishment and recognition of the structures of municipalities and regions as an important basis of the democratic states of the old continent. Thus, there is an international document that contains the principles of local self-government, thereby determining the importance of territorial self-government as the basis of any democratic system. It refers to local self-government as the right and competence of local authorities to manage and administer the majority of public affairs in the interest of the local population. Due to the nature of the availability of public services, the administration of public affairs is primarily carried out by those departments that are closest to the citizen. The transfer of the task to another body should take into account the scope and nature of the request from the point of view of efficiency and economy. The powers in the hands of the local government are mostly complete and exclusive. These powers cannot be violated by any central or regional authority. On the contrary, local authorities are authorized to adapt powers delegated from higher state or self-governing bodies to local conditions. As a rule, local authorities determine their own administrative structures in order to adapt them to local needs and ensure effective management. The provisions on financial operations and their security are particularly interesting for the purposes of this article, according to which, in the economic policy of the state, the local self-government is entitled to its own financial resources, which it freely disposes of within its powers and are proportional to the competences imposed on them by law. Part of local financial resources are local taxes and fees, the amount of which local authorities have the right to determine independently, of course within the limits of the law. Financial operations ensuring local politics must be diverse and viable enough to allow them to “walk” as best as possible with the real development of costs associated with the fulfillment of their tasks. The protection of financially weaker local authorities is also interesting, which requires the introduction of financial equalization procedures to correct the consequences of the uneven distribution of financial resources and the financial obligations they have to bear. However, these measures do not detract from the freedom of local authorities within their own competence. Subsidies to local authorities, as an important source of funding for local activities, do not have to be purpose-bound. Also, when obtaining loans for capital investments, local authorities have access to the internal capital market.

We understand a municipality or city as a legal entity that independently manages its own property and income. The basic task of the city district in the exercise of self-government is to take care of the all-round development of its territory and the needs of its inhabitants. In particular, the local self-government carries out the tasks of proper management of movable and immovable property, draws up its budget and final account, decides on local taxes and fees, directs economic activity in the given territory, for example by making a binding statement on business or investment activity. At the same time, in the technical infrastructure, it implements the construction and

maintenance of local roads, public spaces, cultural and sports facilities and monuments. It ensures the management of municipal and construction waste, maintains cleanliness in its territory and manages greenery, manages the territory's water supply, deals with waste water management and regulates local public transport, approves housing development and can carry out its own investment and business activities in order to ensure the needs of residents. At the same time, it can establish its budget and contribution organizations. Some tasks of the state administration can be transferred to the municipality by law, this brings more rational and effective results right on the spot. The state provides the necessary financial and material cover for the tasks transferred in this way. At the same time, the government supervises the fulfillment of “state” tasks entrusted to the city district as a principle of security and legitimacy. The local self-government finances its goals mainly from its own income, subsidies from the state budget, but also from other sources, such as returnable sources of financing and extrabudgetary funds. In order to fulfill the development program of the municipality in the interest of the state, the latter can provide the municipality with a state subsidy. The municipality can also pay for its programs from funds shared with other municipalities, with self-governing regions and with other legal entities and natural persons. The property of the township needs to be valued and maintained in its overall value, fundamentally undiminished. Donation of immovable property is generally inadmissible. The property can be used mainly for public purposes or business activities. (Law on Municipal Establishment, 1990) Donation of immovable property is generally inadmissible. The property can be used mainly for public purposes or business activities. (Law on Municipal Establishment, 1990) Donation of immovable property is generally inadmissible. The property can be used mainly for public purposes or business activities. (Law on Municipal Establishment, 1990)

The basis of safe and transparent financial management of every municipality is a binding budget, approved for one calendar year but also as part of a multi-year program budget, and also the final account as a secondary financial document. From the point of view of safe and unquestionable processes in budgeting, it is obligatory to publish the draft budget and the draft final account at least 15 days before its approval in a publicly accessible place (usually an official notice board) and on the website. The self-government can transfer the management surplus to an extra-budgetary cash fund or to its budget for the following year.

2. Chief controller for the security and legitimacy of economic operations

An important obligation from the point of view of security and transparency of financial operations is the verification of the annual financial statements of the municipality by a certified auditor. Another such principle for maintaining the safety and legitimacy of economic processes in the municipality is related to the year-round audit - the institute of the chief controller. Pursuant to the above-mentioned Municipal Establishment Act (1990), the chief controller is elected and dismissed by the municipal or city council. Paradoxically, he becomes an employee of the municipality even with the rights and obligations of a senior employee. However, the chief controller may not, without the approval of the council, run a business, perform other gainful activities and be a member of management, control or supervisory bodies in the business sphere. The control activity must be carried out independently and impartially in accordance with the basic rules of the control activity. Let's add that the minimum qualification requirement for the position of chief controller is a secondary school education, which in our opinion is insufficient, and the practice in many cases of local self-government in Slovakia confirms us to be right. Even the apparently statistical and factual clause on the election of the controller in its essence means another “point” to achieve safety and transparency of the supervision of financial operations. Namely, the day of holding the election of the chief controller must be announced by the council in the usual way at least 40 days before the day of the election so that the election is carried out during the last 60 days of the current chief controller's term of office. This ensures, on the one hand, that potential practitioners are sufficiently informed, and, on the other hand, the deadline prevents the state of the

municipality's management without the position of an independent auditor being filled. His term of office is 6 years, which means that the control activity exceeds the normal election period of representatives of the self-government. It is not at all easy to remove him from office and it is necessary to fulfill one of the three serious facts specified in the law, and for removal, the consent of the majority of all deputies is required. The control activity is focused on the legality, effectiveness, economy, efficiency and safety in the management of property and property rights, income, expenses and financial operations, but also the control of the processing of complaints and petitions, or the control of the implementation of council resolutions. Budgetary and contributory organizations are also subject to control if they are established by the local government, or companies in which the municipality has an equity stake. In the control activity, we also include persons who deal with the property of the municipality, as well as persons, who were provided with a special subsidy or financial assistance from the budget of the local self-government.

3. Budgeting as a tool for the security of financial operations

The security and transparency of public finances in local government, but also in all public administration bodies or corporations with property and financial participation of public organizations, is primarily expressed through the preparation, organization, management, implementation and subsequent or continuous control of the imaginary "bible" of economic operations, called the program budget. It covers the current budget period of four years and is compiled in accordance with nine legislative regulations, creating a legal basis for the transparent allocation and acquisition of public funds.

In terms of its financial management, the municipality must apply the principles of risk, responsible planning, budgeting, use, provision, accounting, reporting of public finances, financial control and audit in its economic procedures, the aim of which is the economical, efficient, effective, expedient and safe use of public finances. For the purposes of local self-government management, financial control means the sum of activities ensuring the verification of economy, efficiency, effectiveness, efficiency and security of financial operations before they are carried out, during them and until their final settlement, settlement, achievement and maintenance of the results and goals of financial operations. On the other hand, by audit the law understands the sum of independent, objective, verification, evaluation, assurance and consulting activities aimed at improving management and control processes, taking into account internationally recognized auditing standards. An important safety factor is also the reliability of reporting, including the creation and preservation of a verifiable record of financial operations, the correctness and completeness of information on the financial operation being carried out, the protection of property in the administration or owned by the city district, the prevention of fraud and irregularities, their detection and ensuring correction, prevention and prevention corruption, reporting deficiencies in public activities and their elimination, excluding interventions aimed at influencing employees performing financial control, or taking measures to correct identified deficiencies. Financial control is performed as a basic financial control, administrative financial control, or on-site financial control. As a basic financial control, municipalities or cities are obliged to always verify the compliance of each financial operation with the adopted budget and compliance with the principles of economy, efficiency, effectiveness, expediency and security in the management of public finances. At the same time, the municipality is obliged to carry out an administrative financial control of the compliance of each financial operation with the principles repeated above, whenever it provides public finances to another person or organization. It is also authorized to verify the financial operation through an on-site inspection, during which it obtains evidence for the purpose of verifying compliance with the budget and the principles of economy, both in its organizational units or in other legal entities established or subsidized by the municipality. (Financial Control and Audit Act, 2015) possibly a financial control on the spot. As a basic financial control, municipalities or cities are obliged to always verify the compliance

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Important prerequisites for a transparent and safe system of economic operations are also created by the legal framework of the Act on Budgetary Rules of Local Self-Government (2004) in the budget process in terms of the rules of management and compilation of the final account of the municipality. At the same time, financial relations between the state budget, the budget of the municipality, or the higher territorial unit and other legal entities and natural persons are resolved by the legislative arrangement - both individually and between departments.

In addition to the revenues of the local self-government budget, we advise in particular the share of taxes in the state administration, revenues from local taxes and fees, non-tax revenues from ownership and from the transfer of ownership of property, revenues from financial resources, sanctions for violating financial discipline imposed on various persons, donations and revenues from voluntary collections, subsidies from the state budget to pay the costs of transferred state administration performance and subsidies from state funds. At the same time, we assign special subsidies from the budget of the self-governing region or from the budget of another municipality for the implementation of mutual contracts. Last but not least, we add to the income funds from the European Union and other funds from abroad provided for a specific purpose, the municipality can also use funds from extra-budgetary funds to fulfill its tasks.

The municipal budget mainly covers obligations arising from the fulfillment of established obligations, costs for the performance of self-governing powers, expenses for the payment of the costs of transferred performance of the state administration, expenses connected with the management and maintenance of municipal property and the property of other entities that the local government uses for the performance of entrusted tasks. In addition to expenses, we also include obligations arising from international cooperation, interest on received credits, loans and repayable financial assistance, or expenses related to the issue of securities. It is also important to remember that it is necessary to create a budget in the form of a multi-year document. The multi-year budget is a medium-term economic instrument of the financial policy of the territorial self-government, in which, within its scope, the intentions of the development of the territory and the needs of the inhabitants are expressed for at least three budget years. The budget is internally divided according to the approved structure for current income and expenses; capital receipts and expenditures and transactional operations that make transfers from monetary funds and realize returnable sources of financing and their repayment. Loans and repayable financial assistance from the municipal budget, their installments, issued bills of exchange, sale and acquisition of equity interests are also considered financial operations. According to the law, the municipality is obliged to draw up its current budget as balanced or in surplus. The capital budget is drawn up in the same way as a balanced or surplus budget, but it can also be drawn up as a deficit if this deficit can be covered by balances of funds from previous years, returnable sources of financing, or this deficit is covered by the surplus of the current budget in the relevant budget year.

After the end of the budget year, the municipality summarizes the data on its management into the final account. There is also an obligation to have the financial statements verified by an auditor to check the management of funds, the state and development of debt and compliance with the rules for the use of returnable sources of financing. Before approval, the draft final account is submitted for public discussion. The final account must be discussed no later than six months after the end of the budget year.

In conclusion, let us mention a few essential principles defined by the Constitutional Law on Budgetary Responsibility (2011). This requires long-term sustainability from the public administration by achieving such a state of management in which the budget balance and public administration debt ensure that even the expected change in public administration revenues and expenditures according to the basic scenario in the next 50 years will not cause an increase in debt above the upper limit of public administration debt, which indicates a 50% share of the gross domestic product (GDP). The net wealth of Slovakia is considered to be the sum of the equity of

public administration entities, the equity of the National Bank of Slovakia, the equity of state administration enterprises and local self-government enterprises, adjusted for implicit liabilities and contingent liabilities, or other assets and liabilities in public administration. The state does not financially ensure the solvency and is not responsible for the insolvency of the municipality in the event of its occurrence. At the same time, if the total amount of debt of the municipality or city reached 60% of the current income of the previous budget year, it would have to pay a fine of 5% of the difference between the total amount of the debt and 60% of the current income of the previous budget year.

4. Accounting principles in the direction of safe economic operations

In Slovakia, a few years ago, a reform of the management of public finances was implemented, which was supposed to encourage the effectiveness of budgeting, management of public expenditures and financial operations of state activities. The main parameter of the fulfillment of the outputs of the public finance management reform was the fact that the economic documents were accessible, understandable, trustworthy, relevant, accurate, timely and comparable. Accounting provides such information inputs in the field of local self-government management. Therefore, it was necessary to integrate Slovak procedures in the field of accounting and reporting into international rules for public administration. An accrual system was introduced to the entire public space, as part of international standards, and it creates an information complex that can analyze, summarize, to classify and interpret the results of financial operations of local self-government units and thus ensure the impact on the transparency and security of economic procedures.

We are following the development of the introduction of the aforementioned accrual principle into financial operations in public administration (from the English translation “accrual-based accounting”). The statements must be prepared in accordance with the ESA95/GFS 2001 standard and are assessed by the International Monetary Fund and Eurostat. The European Commission tolerated until 2005 the accounting principle created in the nature of a cash system (Cash basis). However, he ignored other financial operations that affect the ability of public administration to produce goods and services today and in future periods. Likewise, the system did not summarize the income received from assets for several accounting periods. For these reasons, financial operations based on the cash principle were more and more unacceptable to the administrative authorities. Audit reports verifying financial operations and thus their transparency and security, gradually generated significant problems in the accounting system at the time, the European Commission agreed to make the transition to accrual accounting defined in several goals:

- the goal of transition to a new (European) accounting system with a uniform data format, a uniform compact entry of data into a common information system, consistency of central and structural subsystems, multi-year consistency of information and an exclusively accrual principle in accordance with international standards;

- the goal of transition to information technologies with one data entry, full integrity of subsystems, elimination of duplicate data, effective security of transactions and guarantee of auditability. (Guzyová, 2012)

Let's stop at the term “accrual principle” which essentially ensures the security of the economic operations of the municipality. We understand the latter as a system in which transactions and other events are reported at the moment they occur and not only when cash or cash equivalents are received or paid out. Therefore, transactions and events are recorded in the accounting books and reported in the financial statements for the period to which they relate in terms of time and substance, regardless of when the flow of cash or their equivalents related to the given financial operations occurred. The temporal and material connection with the costs is also used in the settlement of transfers, that is, the transfer is settled when the cost that was covered by this transfer occurred. In order to comply with the accrual principle, costs and revenues are differentiated over time. Accrual is only possible into the future. The criterion for accrual accounting is that the

substantive content of deferred economic operations is known, we know the exact amount, and we can spread the amount and assign it to future accounting periods. Accrual accounts are subject to a documentary inventory, and during the inventory, their amount and the justification for the existence of accruals are assessed (Methodological guidelines of the MF SR, 2021).

At the beginning of 2005, the European Commission started accounting and reporting all financial operations on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS) with the help of a modernized accounting system. For the successful integration of the system of the EU member countries, a new method of accounting and reporting was gradually introduced. In order to ensure the comprehensibility of the accounting information presented by the financial statements of the member states of the European Union, the importance of accounting harmonization through the implementation of international accounting standards into the legislative rules of public administration accounting in Slovakia emerged. And so, since 2008, individual units of the Slovak public sector have been conducting accounting in accordance with the indicated new methodology with the essence of introducing the accrual principle.

According to Stašová Hudáková (2011), the new accounting system mainly introduced the exclusion of the use of accounting in the simple accounting system within public sector entities. It introduced the obligation of consolidation - the compilation of consolidated financial statements and summary financial statements within the framework of public administration as a whole. He harmonized the method of accounting and reporting of self-government and state administration entities with the method of accounting and reporting of other accounting units in Slovakia and the entire public sector reporting in the European Union. Subjects of territorial self-government in the indicated sense compiled consolidated financial statements for the first time in 2010 for the accounting period 2009. The goal of consolidated financial statements is to provide data on the consolidated unit as a complex economic unit. Consolidated financial statements consist of the compilation of a consolidated balance sheet, a consolidated income statement and notes. Therefore, the basic prerequisite for its successful compilation is mainly high-quality internal guidance, methodical management and reconciliation of mutual accounting transactions and balances, and technical processing of summary data of the balance sheet and profit and loss statement. These processes are followed by the necessary consolidation measures.

Mentioned international accounting standards for the public sector (International Public Sector Accounting Standards) are the basis for the compliance of state and local government accounting, recommended by experts and adopted by almost all countries of the European Union. An interesting characteristic is also the fact that they are derived from international accounting standards for the private sector (IAS/IFRS), and therefore provide a uniform basis for the consolidation of data for public administration, from which reports are subsequently prepared according to ESA95/GFS2001. International accounting standards for public administration are issued by the international institution IFAC (International Federation of Accountants), respectively the International Committee for Accounting Standards for Public Administration, which is authorized by it. In the case of business entities, the financial statements should offer information on complete financial operations and achieved economic results, for example in the sense of the evaluation of the owners' investments or the preservation of the purchasing power of the invested funds, but in the case of public administration entities, the financial statements will mainly be about assuring citizens about the effective management of entrusted financial resources. It is understandable, as we know significant deviations resulting from the different focus of goals in the business and public spheres, that the progress of accounting principles for the business sphere is dynamic and related to relatively significant changes. (IPSASB, 2022) It is understandable, as we know significant deviations resulting from the different focus of goals in the business and public spheres, that the progress of accounting principles for the business sphere is dynamic and related to relatively significant changes. (IPSASB, 2022) It is understandable, as we know significant deviations resulting from the different focus of goals in the business and public spheres, that the progress of accounting principles for the business sphere is dynamic and related to relatively significant changes. (IPSASB, 2022).

Conclusions

Pointing to several forms of security, risk elimination in the creation and implementation of budget rules and financial processes, we tried to explain a well-functioning mechanism of public and internal control, aspects of handling the property of a public institution, as well as methods to achieve economy, efficiency, effectiveness and purposefulness of spending public resources, while these paradigms cannot function comprehensively without being influenced by the procedures also evident from the safety management parameters - on a theoretical and especially practical level.

The territorial self-government, as a public administration body, is not obliged to keep an official account in the state treasury, and therefore usually has several accounts in commercial banks for various needs and financial transactions, which can also mean the (in)security of its financial operations. Time also brings the interesting phenomenon of the disappearance of cash payments in public spheres, while municipalities set the maximum amounts of possible cash payments limited to an increasingly lower amount by internal regulations. During modernization, we are also talking about the introduction of cashless payments for the offer of public services. This also brings us closer to the elimination of risk and the creation of safe handling of public resources. Municipalities work with an international accounting system, which is already connected to state control structures and represents another element in the hierarchy of security of financial operations.

The municipality is the basic unit of public self-government in Slovakia, with entrusted competences in many areas of social life. Associated with them are extensive principles of handling funds and the corresponding security, transparency, efficiency, economy, expediency and effectiveness of economic operations. Only time and public “demand” will show how intensively the need to preserve, expand or reduce the system of public administration and self-government, including the range of powers and scope, will persist, not excluding sufficient financial coverage and its safe spending from the state budget.

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