



Annual Report

2003

Watching over Public Money!



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3105-1/2004-2

15 March 2004

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Introduction

The Court of Audit planned and implemented its audit tasks by carrying out its obligations prescribed by Article 25 of the Court of Audit Act considering the existing conditions. The implementation of the legal obligations has two aspects: quantitative and structural. The quantitative aspect is applied when the Court of Audit efficiently carries out audit procedures; the structural aspect is applied when auditing includes the following areas:

- Implementation of the state budget,
- Use of transfers from the state budget,
- Business operation of municipalities,
- Business operation of the Health Insurance Institute and the Pension and Disability Insurance institute,
- Use of transfers by the Health Insurance Institute,
- Business operation of public utilities,
- Other.

The implementation of responsibilities of the Court of Audit was structured in the way, which enabled the use of available audit time as presented in Table 1.

Table 1: Planned percentage of the available audit time by audit area

Audit area	Percentage of the available audit time	
	minimum	maximum
A. Implementation of the State budget for 2002	15	20
B. Use of transfers from the state budget for 2002	15	20
C. Business operations of municipalities in 2002	15	20
D. Business operations of the Health Insurance Institute and the Pension and Disability Insurance institute in 2002	5	7
E. Use of transfers by the Health Insurance Institute in 2002	10	15
F. Business operations of public utilities	5	10
G = A+B+C+D+E+F	65	92
H. Other	100-92=8	100-65=35

The audits under A are implemented on the basis of Point 1, audits under B and E are implemented on the basis of Point 6, audits under C are implemented on the basis of Point 4, audits under D are implemented on the basis of Points 2 and 3 and audits under F are implemented on the basis of Point 5 of Paragraph 4 of Article 25 of the Court of Audit Act. The audit proposals must be submitted by the Supreme State Auditors and both Deputy Presidents. The procedures for defining audit proposals, introducing audits into annual programme and implementation of the audits are presented in Annex 2.

In 2003 the Court of Audit also implemented tasks which were not directly linked to auditing responsibilities. Nevertheless, the following tasks must be considered when implementing audits:

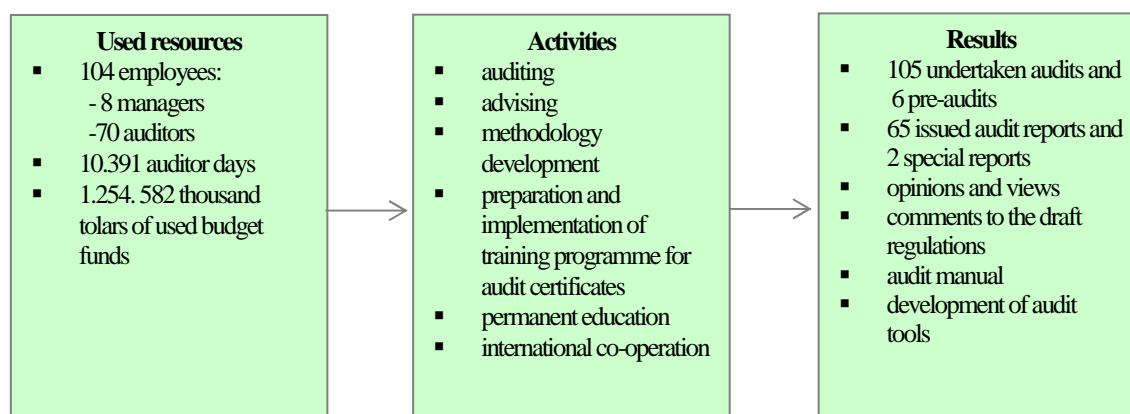
- Training for auditors – for awarding auditor titles *state auditor* and *certified state auditor*,
- Close co-operation with the Supreme Audit Institutions of the UK, Denmark and Spain – the Twinning Project,
- Internal audit of financial statements and selected segments of business operations of the Court of Audit.

Implementation of the Audit Programme

Basic data on programme implementation

The tasks which were planned for 2003 were more demanding in scope and quality if compared to the tasks from the previous year. The Court of Audit paid more attention to the audits of the use of transfers by the end users and of the business operation of the public utilities. The resources which were used and the results that were achieved are set out in Figure 1 below.

Figure 1: Used resources and achieved results of the Court of Audit in 2003



In accordance with the data from the computer programme REVIS, which records the implementation of tasks, presence and absence of auditors, there were 14,199 auditor-days available in 2003. The number of auditor-days and the structure are presented in Table 2.

Table 2: Number of auditor-days by type of a task

Type of a task	No. of auditor-days	Structure in per cents
Audit	7,959	56,1
Preliminary audit	93	0,6
Other tasks indirectly linked to auditing	2,339	16,5
Total audit tasks	10,391	73,2
Absence from work	3,808	26,8
Total	14,199	100,0

The implementation of audit tasks is presented in the following paragraphs. Among other tasks, which are recorded in REVIS as non-audit tasks, there are different types of training, participation at meetings at the Court of Audit or outside of the institution, tasks implemented on the request of the Head of the Department or Member of the Court of Audit. Some of the available time, which is indirectly linked to auditing, was spent for the development of new methods and techniques for auditing state and municipal budgets, for the preparation of guidelines and programmes, which are referred to fighting against fraud and corruption.

The data on the number of auditor-days related to absence from work include annual holidays, public holidays, as well as absence due to maternity leave, sickness and nursing.

Results of the Pre-audit Procedure

In 2003 there were 93 auditor-days planned for pre-audit procedures, which is 0,6 per cent of the available time. The purpose of the pre-audit procedures is to review the received proposals for undertaking audits, to decide whether to continue with full audits and to obtain data for preparation of detailed audit plans. The Annual Programme 2003 planned the implementation of 8 pre-audits, 6 of them were introduced in 2002.

In 2003 testing of the internal controls systems was included in the frame of the regular audits. Within the Audit of the state budget 2002 a special analysis of internal auditing was carried out, in order to assess how the ministries address the internal auditing standards.

Apart from the above mentioned pre-audits the Court of Audit implemented a number of inquiries referred to the proposals for undertaking audits, which were submitted by individuals or organisations. Those proposals were pointing out irregularities in business operations of the public law entities.

In 2003 the Court of Audit received 137 proposals for undertaking audits. Most of them were submitted by individuals or groups of individuals (81 proposals), 36 were anonymous. The National Assembly submitted 9 proposals, governmental offices, Ministries and their subordinate bodies submitted 27 proposals, local community bodies submitted 20 proposals.

Out of the total of 153 proposals submitted to the Court of Audit in 2002, twenty one proposals were included in the Annual Programme for 2003. The Annual Programme consisted of 4 audits that were the proposal of working bodies of the National Assembly and one proposal of the members of Parliament. The Annual Programme 2003 also included 9 audits on the proposals of ministries and local community bodies and seven audits on proposals of others, which were submitted in 2003. Out of the audits, which were introduced in 2003 on the basis of the proposals by the National assembly, 4 audits were not completed.

The submitters determined in Paragraph 2 of Article 25 of the Court of Audit Act (deputies and working bodies of the National Assembly, ministries and local community bodies) made 56 proposals for undertaking audits in 2003. When the Annual Programme for 2004 was defined the Court of Audit included most of the received proposals. The Annual Programme 2004 was not completed when this report was being prepared due to the changes in the management structure. The proposals for undertaking audits which were submitted by the National Assembly in 2003 are presented in Table 3.

The pre-audits which were planned in 2003 were in the same year completed. In 6 cases, the full audits were introduced, i.e. were included in the Annual Programme 2003. In 2 cases the audit procedure was completed in the pre-audit phase due to findings of the pre-audits and proposals of the Supreme State Auditors. The reasons for that are presented in the following paragraphs.

The pre-audit of the Post Bank, Maribor included the review of documentation and gathering information related to granting loans, with special attention to the loan granted to the company DEJ – economic consulting and development and First pension fund.

The pre-audit showed that the business operation of the Post Bank Slovenia is transparent, that loans were granted on the basis of adopted guides. The Court of Audit did not find any irregularities referred to granting and guaranteeing loans. Due to the facts that the company DEJ should be reviewed as well (but the Court has no authority), the Bank Slovenia regularly reviews the business operation of the Post Bank, the Post Bank has its internal audit department, the Bank is annually audited by a commercial company, the Court of Audit assessed that the audit of the Post Bank is not necessary.

Table 3: Proposals for undertaking audits submitted by the National Assembly in 2003

No.	Submitter	Description of the proposal
1	Commission for Budgetary and Other Public Finance Control	Performance and regularity audit of the Governmental Office for Informatics – assessment of costs and benefits of the services undertaken by an external provider in the last five years; analysis of expenditures of the external service providers
2		Performance of the Governmental Office for Public Procurement – appropriateness of its involvement in the public procurement processes
3		Regularity of business operation of the public utilities and their founders
4		Payments for intellectual services of the external service providers (studies, programmes, analysis ...) – economy and appropriateness of contracting such activities
5	Committee for finance and monetary policy	Regularity and performance audit of Tax Administration of the republic of Slovenia
6	Department for petitions	Regularity of use of funds earmarked for employment of the disabled in the company AP-PRO d. o. o., Lovrenc na Dravskem polju
7	Chamber of Deputies: Slovene democratic party and New Slovenia	Performance of business operation of the Nova Ljubljanska Banka – performance of planning, purchase and implementing the project SIGMA from 1998 to 2003, including the review of regularity of contracting external experts.
8		Regularity of business operation of the urban municipality Ljubljana
9		Regularity and performance of the sale of capital share (financial investment) of the State in the company Sistemska tehnika, to the purchaser Viator&Vektor

On the proposal of the Ministry of Finance and Ministry of Agriculture, the Court of Audit undertook preliminary procedures for the implementation of the review of fulfilment of accreditation conditions of a paying agency which shall allocate funds of the European Agriculture Guidance and Guarantee Fund. The accreditation is awarded to the paying agency by authorised body of the Member State in line with the demands of the EC. The decision on the accreditation is adopted by the ministry on the basis of the review which is carried out in line with the international auditing standards. Since the pre-accreditation review should not be carried out by the institution that is nominated for the certifying body, the ministry asked the Court of Audit to carry out the review. After the thorough review of the valid national and European regulations and arrangements set up by the Agency for agricultural markets and rural development, the Court of Audit assessed that there were risks associated with the implementation of the task that could be harmful for the Court's independence; therefore the Court decided not to implement the review.

Results of the Audit Procedure

Number of Audits

In the Annual Programme 2003 there were 49 audits which were not completed in 2002 and 58 new audits that were proposed by Supreme State Auditors, First and Second Deputy President and President of the Court of Audit.

In order to complete 49 audits transferred from the Annual Programme 2002, there were 1.347 auditor-days planned in 2003, 95 percents of the time was used (i.e. 1.279 auditor-days). All audits except one were completed in 2003 and audit reports were issued. In order to implement new audits, there were 8.262 auditor-days planned in 2003 and 80 per cents of the time was used. Table 4 shows the planned and used time for the implementation of the audits introduced by the Annual Programme 2003.

Table 4: Planned and used time for the implementation of the audits in 2003

Audit area	Planned number of auditor-days in 2003 for new audits		Used number of auditor-days in 2003	Implemented
	Initial plan	Amended plan		
1	2	3	4	5= (4:3)x100
A. Implementation of the state budget for 2002	1.900	1.900	1.819	95,7
B. Use of transfers from the state budget for 2002	390	660	502	76,1
C. Business operation of municipalities in 2002	1.500	1.560	1.151	73,8
D. Business operation of the Health Insurance Institute and the Pension and Disability Insurance institute in 2002	500	500	464	92,8
E. Use of transfers by the Health Insurance Institute in 2002	1.000	762	521	68,4
F. Business operation of public utilities	940	1.065	884	83,0
H. Other	1.785	1.815	1.271	70,0
Total	8.015	8.262	6.612	80,0

The initial Audit programme which was adopted by the President (on 15 January 2003), was later on amended – four new audits were added. Two of them referred to the credibility of the response reports from the post-audit procedure. Additional changes to the Annual programme were related to the audit scope and the necessary time for the implementation.

Out of 58 new audits included in the Annual Programme 2003 there were 5 audits which were proposed by working bodies of the National Assembly and the members of Parliament in 2002. They are presented in detail in table 5.

Table 5: Audits proposed by the National Assembly

No.	Audit title	Date of issuing the decree on audit implementation	Situation on 31 December 2003
1	Performance audit of Slovene development company since its foundation to 2002	19. 3. 2003	Draft audit report
2	Performance of the use of the state budgetary funds by Elan d. d., Begunje in 2000, 2001 and 2002	12. 11. 2003	Gathering data for testing
3	Implementation of the motorway construction programme by the Motorway Company of the Republic of Slovenia	10. 7. 2003	Working draft audit report
4	Regularity of use of transfers by Nova Gorica General Hospital dr. Franca Derganca for 2002	21. 10. 2003	Field work
5	Regularity of business operation of the Municipality Mengeš in 2002	24. 6. 2002	Audit report being edited

Other proposals received in 2003 from the National Assembly shall be considered in the Annual Programme 2004.

In 2003 the Court of Audit issued decrees on audit implementation for 56 audits. Not all audits from the Annual Programme 2003 were completed. 65 audits were completed and the audit reports were issued.

Apart from that, two special audit reports were issued in 2003, i.e. joint report on the audit of the construction of the railway line Murska Sobota in Slovenia and Zalău in Hungary. The audit was implemented in co-operation with the Audit Office of Hungary. The other one was joint opinion on the purchase of the shares of the Slovene Investment Bank Ljubljana. The Court of Audit also reviewed the annual reports prepared by political parties, which is one of the specific tasks undertaken by the Court of Audit and it is considered as a single audit. One audit was introduced in line with the old Court of Audit Act but it was stopped due to the objective dispute of the auditee.

For the implementation of audits which were uncompleted and transferred from the previous years to the Annual Programme 2003 and the new audits, the Court of Audit spent 7.959 auditor-days. The structure of used time for auditing of the key auditees is shown in Table 6.

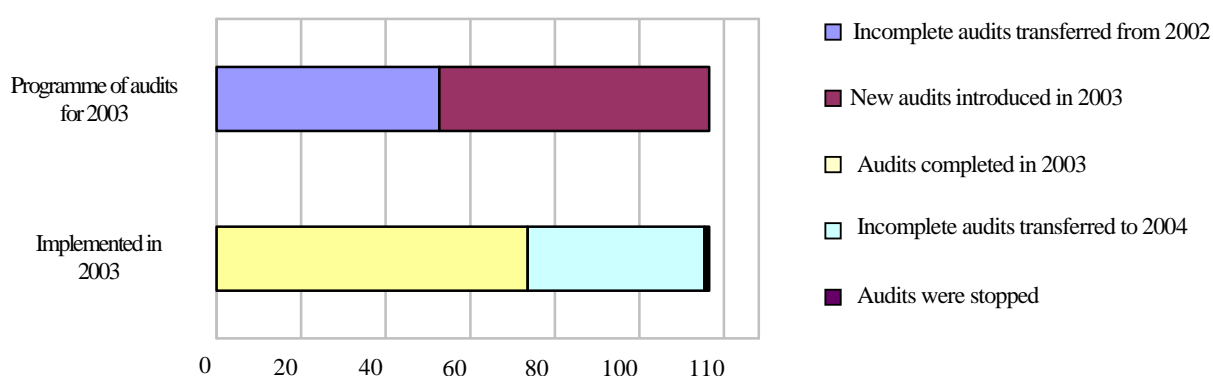
Table 6: The scope and structure of used time for auditing in 2003

Audit area	No. of used auditor-days for completed audits	No. of used auditor-days for not completed audits	Total No. of used auditor-days	Structure of used time in per cents
A. Implementation of the state budget	1.859	-	1.859	23,3
B. Use of transfers from the state budget	-	502	502	6,3
C. Business operation of municipalities	1.055	493	1.549	19,5
D. Business operation of the Health Insurance Institute and the Pension and Disability Insurance institute	464	-	464	5,8
E. Use of transfers by the Health Insurance Institute	80	668	747	9,4
F. Business operation of public utilities	586	580	1.166	14,7
H. Other	680	992	1.672	21,0
Total	4.724	3.235	7.959	100,0

The review of the used time for the implementation of audits in 2003 shows that the Court of Audit allocated most of the resources for the audit of the state budget and municipal budgets. Furthermore, the Court used a lot of time also for the implementation of audits of public utilities with the stress on the public commercial service providers.

At the end of 2003 there were 38 uncompleted audits, one of them was introduced in 2000, and it was implemented in line with the old Court of Audit Act (Official Gazette of the Republic of Slovenia, No. 48/94). One was introduced in 2002, 36 were introduced in 2003 and they were implemented in line with the new Court of Audit Act. For the audits, which were not completed at the end of the year, the auditors spent 3.235 auditor days in 2003. The Annual programme 2004 included 30 audits from previous years: two audits which did not start in 2003 and 28 audits which needed additional audit work. The audit, which was introduced in 2000 and was implemented under the old Act, was, in 2003, in the phase of the second-instance senate. Figure 2 presents the number of planned and completed audits from the Annual Programme 2003.

Figure 2: The number of planned and completed audits from the Annual Programme 2003



The comparison of the data related to the years 2002 and 2003 from the above figure enables one to assess the efficiency of the Court of Audit.

Table 7: Results of audit work in 2002 and 2003

Description of a task	2002	2003	Index
The number of uncompleted audits, which were transferred to the next calendar year	49	38	77
The number of issued decrees on audit implementation	61	56	92
The total number of undertaken audits	98	105	107
The number of issued audit reports	47	65 + 2*	138

* The concluding opinion on the purchase of SIB shares and special report on the parallel audit on railway construction which was prepared in co-operation with the SAI Hungary.

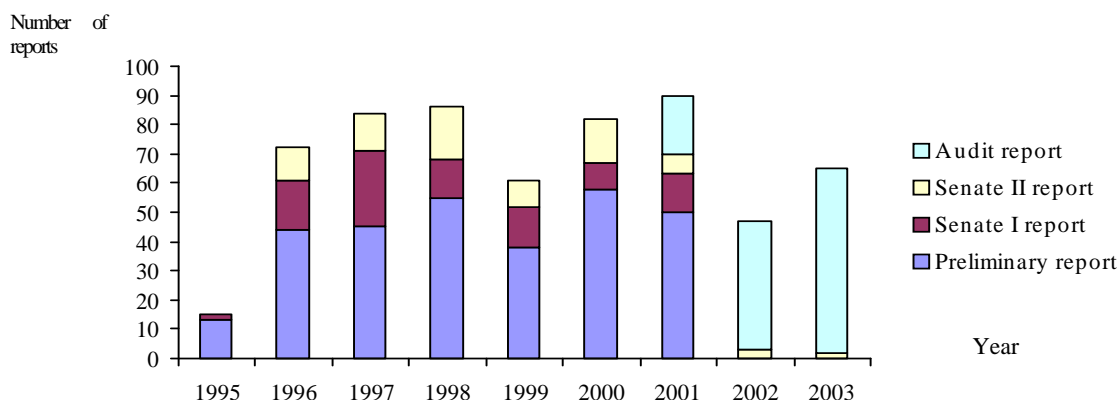
In 2003 the Court of Audit implemented more audits and issued more audit reports than in the previous year. At the end of the year there were 38 uncompleted audits which were in the phase of reporting and were transferred to the Annual Programme 2004. In the period from 1995 to 2003 the Court of Audit issued a total of 602 audit reports, 65 of them were issued in 2003. The number of reports according to the types and years is presented in Table 8.

Table 8: The number of reports according to the types and years

Type of report	1995	1996	1997	1998	1999	2000	2001	2002	2003
Audit reports in line with the old Act									
▪ Preliminary report	13	44	45	55	38	58	50	-	
▪ Senate I report	2	17	26	13	14	9	13	-	
▪ Senate II report	0	11	13	18	9	15	7	3	2
Audit reports in line with the new Act									
	-	-	-	-	-	-	20	44	63
Total	15	72	84	86	61	82	90	47	65

On the basis of the old Court of Audit Act two audits were completed in 2003. 63 audits were implemented in accordance with the new Court of Audit Act. It is necessary to stress that the audit of the State budget, which was in the Annual Programme 2003 planned as a single audit, consists of 18 parts (audit of the financial statements of the state budget and of the implementation of the state budget and 17 audits of the implementation of the financial plan of the direct budget users). The Annual Programme 2004 consisted of another audit that was introduced in 2000 on the basis of the old act. At the end of 2003 there was the second-instance senate which debated the objection to the audit report. The structure of the audit reports by type is presented in Figure 3.

Figure 3: Structure of audit reports by type



The structure of audit reports changed when the new Court of Audit Act was enacted. The final audit reports, which were signed by members of the Court of Audit acting as heads of the departments (i.e. preliminary reports) or presidents of the senate (Senate I reports, Senate II reports) are now completely covered by audit reports, which are always signed by the Auditor General.

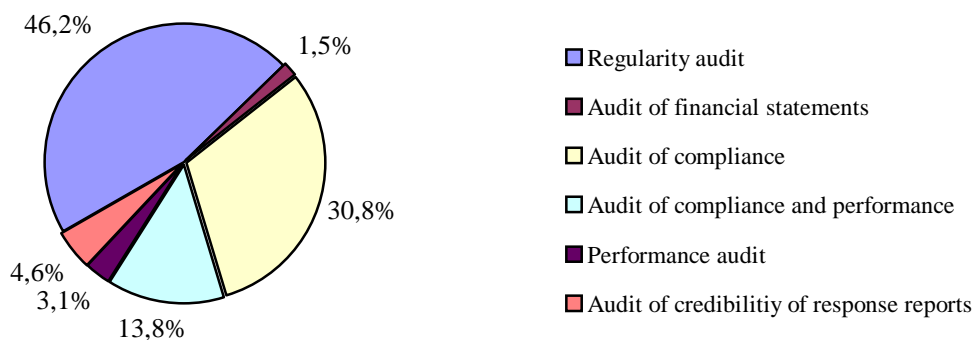
Types of Audits

Audits can be ranked according to the objectives set by the auditors. In 2003 the following audit objectives were defined:

- to express an opinion on the financial statements,
- to express an opinion on the compliance between the business operation and legislation and
- to express an opinion on the performance of business operation.

The Court of Audit mainly implements audits where two opinions are expressed: an opinion on financial statements and an opinion on compliance with relevant regulations. In 2003 there was only one audit referred solely to the act on business operation, two audits solely referred to performance and three solely referred to the credibility of response reports. In all other cases the auditors reviewed regularity of business operation. The review of regularity was either included in the individual regularity audit or joint with the review of financial statements or with a performance audit. All types of audits which were completed and the audit reports were issued in 2003 are presented in Figure 4.

Figure 4: Types of audits in line with the audit objectives



Out of 65 audits completed in 2003, 39 audits or 60 per cent belonged to the group of audits with two audit objectives: the opinion was expressed on financial statements and compliance between the business operation and legislation; or opinion was expressed on compliance between the business operation and legislation and performance. In 2002 there were 38, 3 per cent of such audits.

In 2003 there were 11 performance audits completed. The audits which included performance factors were related to reviewing public utilities, beneficiaries who were allocated funds for certain programmes and public procurement procedures. Those audits represent 16, 9 per cent of all reports issued in 2003. If compared to 2002, when performance audits represented 32 per cents of all reports, last year the percentage was divided. Among those audits there were also privatisation audits. In 2002 there were two audits completed: both referred to sales of shares and parts of companies. Four new privatisation audits were undertaken.

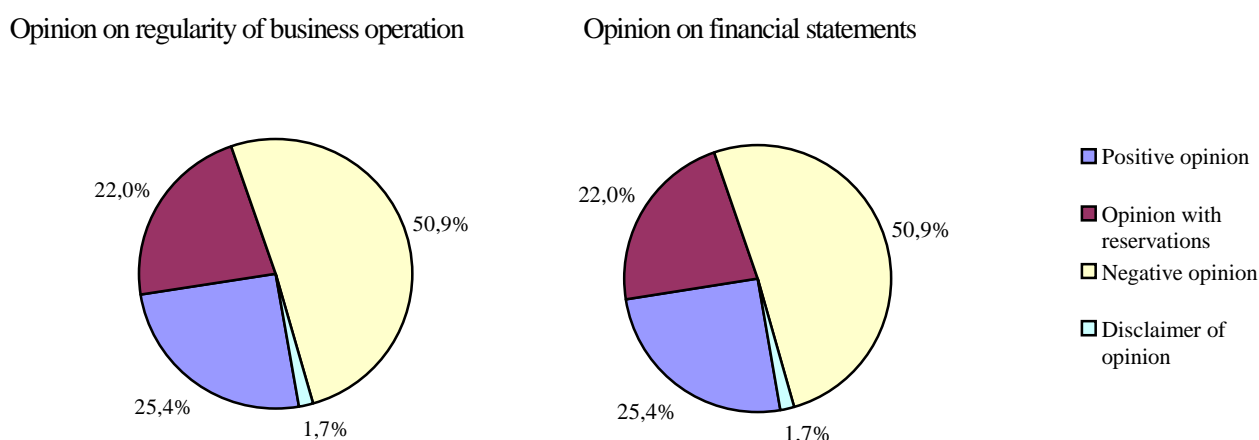
One of the audit objectives of the Annual Programme of the Court was to implement appropriate number of audits of municipalities. Half of audits of municipalities had only one objective. The objective was to express an opinion on compliance of business operation with the regulations. The rest of the audits referred to the regularity of business operation. In 2003 the Court of Audit in co-operation with auditors from the Audit commission of the United Kingdom developed new approach to auditing municipalities, which was used in a pilot audit. The project was not completed at the end of the year. In 2003 the auditors undertook 22 audits of business operation of municipalities and issued 15 audit reports.

Opinions Issued in Audit Reports

In the audit reports, where the audit objective was to express an opinion on the regularity of business operation or solely on the financial statements or the compliance of business operation with regulations, there was a total of 90 opinions. The opinions in the performance audit reports were descriptive, that is the assessments of economy, efficiency and effectiveness.

The most frequent type of opinion expressed was a negative opinion. In 2003 there were, in total, 35 negative opinions or 38,9 per cent of all opinions expressed in the audit reports. In 2002 positive opinions prevailed, that is 42 per cents. The increasing tendency of negative opinions shows certain decline in business operations, mainly in the part that is related to compliance between business operation and regulations. Figure 5 shows the types of opinions issued.

Figure 5: Type of expressed opinions in line with audit objectives



The Court of Audit issued only 11 audit reports with positive opinions (16,9 per cent). There were a lot of negative opinions related to the audits of compliance between business operation and regulations. The most common reasons for an opinion with reservations or a negative opinion were violations of law or regulations that define financing of the public funds users, mainly relating to public procurement and pay. In one case the auditors were not able to obtain relevant and sufficient audit evidence to express an opinion, therefore the opinion was not issued.

Time required for the Audit Implementation

The efficiency of auditing in 2003 compared to the previous year has improved. The amount of time used for the implementation of one audit was reduced, as well as the number of calendar days from the day of commencing the audit to the day of publishing the audit report.

In 2003 the Court of Audit issued 65 audits in line with the new Court of Audit Act. The data on the average use of time per audit without considering the particularities of audit types, would not give the appropriate picture. Therefore the time used for the implementation of audits (if an audit report was issued in 2003) was based on three groups of audits and audit areas. The three largest audits (state budget, institute for pension and disability insurance, institute for health insurance) were not included. It was found out that the Court of Audit spent on average 116 auditor-days for usual audits and 31 auditor-days for audits of election campaigns and 13 auditor-days for audits of response reports. The audits of municipalities were completed on average in 93 auditor-days. Most of the time was spent on audits of public utilities (156 auditor-days); above the average there was the implementation of the audits of non-commercial public services (134 auditor-days).

The number of calendar days from the day of commencing the audit (in 2002) to the day of publishing the audit report (in 2003) reduced by 43 days. For the audits introduced in 2003 the number of days reduced for 61 days. The number of days is presented in Table 9.

Table 9: The number of calendar days from the day of commencing the audit to the day of publishing the audit report

Activity	The average number of calendar days per audit in line with the new Court of Audit Act			
	2001	2002	2003	
			the decree issued in 2002	the decree issued in 2003
From the publication of the decree on audit implementation to the publication of audit report	228	213	170	152
From the publication of the draft audit report to the publication of the final audit report	72	71	62	52

The data on audit implementation also include the audit of the state budget for 2002 which was the most demanding audit in 2003. To implement this audit 1.819 auditor-days or 22, 9 per cent of the total audit time was spent. Apart from the audit of the financial statements of the state budget, the auditors reviewed the compliance between the business operation and the legislation for 17 direct budget users. The results of this audit are presented in detail on page 16.

The comparison of audit activities under the old and the new Court of Audit Act shows that the audit implementation under the new Court of Audit Act is more efficient. On average the audits were implemented in a shorter period of time under the new Act.

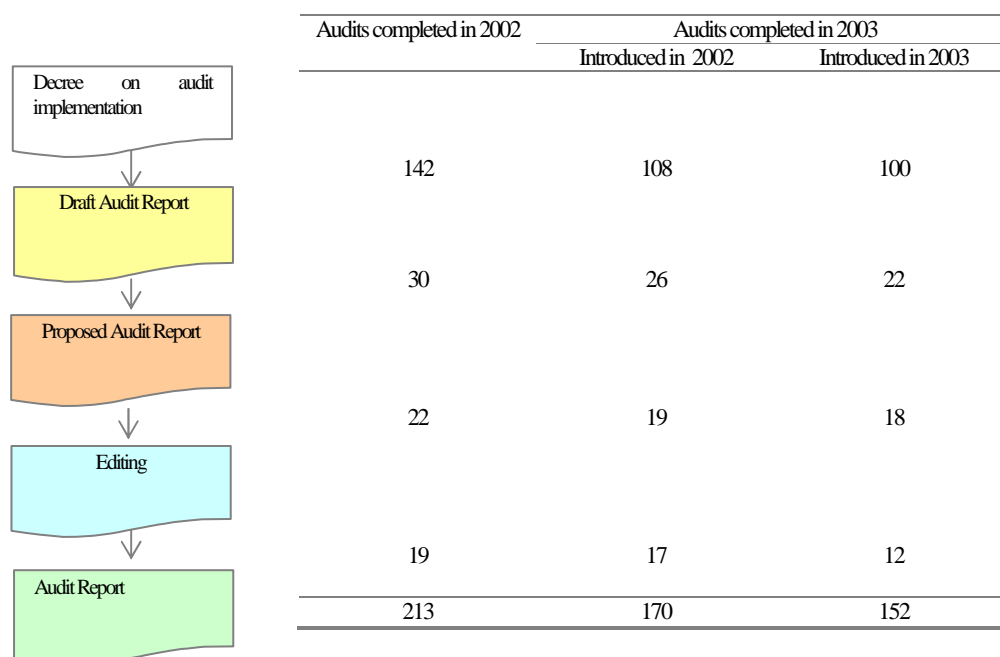
The Court of Audit considers quality assurance of the audit reports an important task. There is a three-member board who is implementing editing. Their key task is to review each report before its publication. The editorial board examines whether auditing standards were followed, accounting standards and guides were correctly used, and whether grammatical rules were applied. The procedure of editing and issuing audit reports which were published in 2003 lasted on average 17 calendar days per audit report for audits introduced in 2002; and 12 calendar days per audit report for audits introduced and completed in 2003. The average number of calendar days needed for the audit implementation is presented in Figure 6.

Considering the developments in auditing and results of the analysis of the time consumption in individual reporting phases, it can be expected that the time consumption shall be reduced in future (time which passes from the issuing the decree on audit implementation to the publication of an audit report) due to better organisation of work and more efficient management of audit departments. In all other procedures linked to the reporting phase the length of time cannot be shortened.

The period of time from the issuing of a draft audit report to the issuing of a proposed audit report includes clearance meetings. At the clearance meetings an auditee may: challenge individual disclosures in the draft audit report and present additional explanations on their business operation. There were 54 clearance meetings related to the audits carried out in 2003.

The period of time from issuing the draft audit report to the preparation of the proposed audit report includes clearance meetings, where the auditees can object to the audit findings and additionally explain their operations. In 2003 the Court of Audit carried out 54 clearance meetings with the auditees. The period of time from issuing the proposed audit report to the preparation of the audit report for editing includes the Senate of the Court of Audit which decides on any disputed disclosure. In 2003 auditees filed objections to disclosures in 15 cases of the proposed audit reports. Eventhough the Court of Audit implemented more audits and issued for 38 per cents more audit reports in 2003, there were 5 objections less than in 2002. That shows that the Court of Audit was even more successful. In 2003 the Senate of the Court of Audit assembled 15 times to discuss objections filed by the auditees which related to the disputed disclosures and in the 19 proposed audit reports – in January 2003 the Senate discussed, at two meetings, the objections to four proposed audit reports which were submitted to the Court at the end of 2002.

Figure 6: The process of auditing showing the average number of calendar days per audit



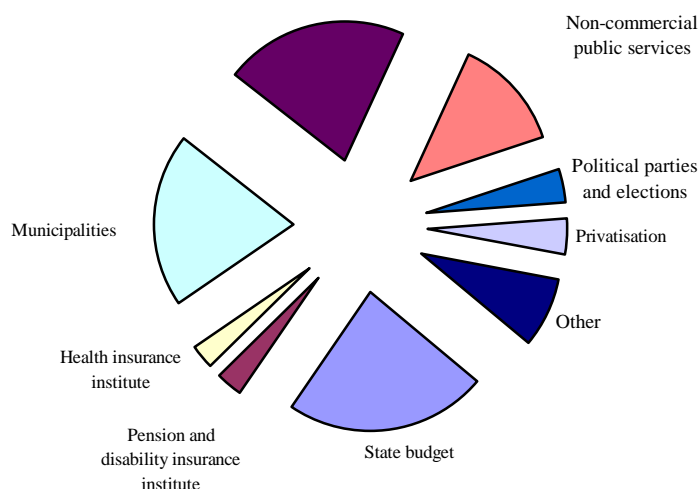
In 2002 the Court of Audit used 8.012 auditor-days for the audit implementation, 7.959 auditor-days were allocated for the implementation of audits and 53 for pre-audits. The main part of resources (6.579 auditor-days or 82, 7 per cent of the available time) was earmarked for those audits which are defined under Paragraph 4 of Article 25 of the Court of Audit Act. Most of the time was spent for the implementation of the mandatory audits: the audit of the state budget (1.859 auditor-days), regularity audits of the Health Insurance Institute of Slovenia (204 auditor-days) and the Pension and Disability Insurance Institute of Slovenia (260 auditor-days).

The above mentioned Article also defines that the Court of Audit must every year audit: the regularity of business operation of a suitable number of urban and other municipalities; business operation of a suitable number of public utilities providers; business operation of a suitable number of providers of non-commercial public services. In 2003 the Court of Audit implemented audits of 22 municipalities, five of them were urban municipalities; of 12 public utilities providers and 19 providers of non-commercial public services. For the implementation of the audits of municipalities the Court of Audit used in total 1.549 auditor-days or 19,5 per cent of the total time used for auditing in 2003. In 2003 an important part of resources of the Court of Audit was planned for auditing of public utilities providers and providers of non-commercial public services (in total 34 per cent).

The Court of Audit each year audits annual reports of political parties in accordance with Article 24 of the Political Parties Act. At the end of 2002 the Court of Audit undertook the audit of the reports of the nine organisers of the election campaigns which is prescribed as a statutory duty for the Court of Audit by the Election Campaigns Act. For the implementation of those audits 187 auditor-days were used in 2003. Apart from that the Court of Audit used 28 auditor-days for the review of reports on local elections and 20 auditor-days for the review of annual reports on political parties.

In 2003 the Court of Audit spent 7.391 auditor-days or 92, 9 per cent of the annual resources for all tasks implemented under the Court of Audit Act, the Political Parties Act and the Election Campaigns Act and Article 17 of the Slovene Development Company Act. Compared to the previous year the Court allocated for 18, 6 per cent more resources in 2003. The structure of used time for auditing of the key auditees is shown in Figure 7.

Figure 7: Structure of used time for auditing by auditee or subject



Based on the legal basis the audits can be classified into four groups:

- the audits which must be carried out at the auditees and in the scope that is prescribed by the Court of Audit Act or other Acts,
- the audits which must be carried out every year at the appropriate number of auditees, in the prescribed area and scope; the selection of auditees is the domain of the Court of Audit,
- the audits which must be based on proposals of the National Assembly in accordance with the Paragraph 2 of Article 25 of the Court of Audit Act,
- the audits which are selected by the Court of Audit independently without limitations referred to the area or the audit scope.

Out of the total number of 65 audits and reviews of political parties' annual reports and local elections (two separate audits) which were completed in 2003, 18 audits or 27, 7 per cent belonged to the mandatory audits, the rest of them were audits which were independently selected by the Court of Audit.

Compared to 2002, when the Court of Audit spent 76 per cent of its resources for the implementation of audits under the Court of Audit Act and other Acts, the Court of Audit spent 87 per cents of the available time for that type of audits in 2003.

The audits, which were selected by the Court of Audit independently, were audits of agencies and funds, courts, individual programmes (i.e. national programme of motorway construction, basic development programme) also programmes financed from the EU funds (PHARE, ISPA), public procurement and privatisation of state assets.

Presentation of More Important Audits

Audit of the Business Operation of the State

In 2003 the Court of Audit implemented the audit of the business operation of the State and issued the audit report on the financial statements and budget implementation by the Republic of Slovenia in 2002. It is a mandatory audit, namely it must be implemented each year, as defined by the Court of Audit Act and the Public Finance Act. The Court of Audit reviewed the use of budget funds in 2002 at 17 direct budget users: all ministries, Joint Services of the Government, Statistical Office of the Republic of Slovenia and Slovene Academy of Sciences and Arts.

The audit objectives were:

- to express an opinion on financial statements of the common part of the budget for 2002 and balance sheet of 31 December 2002,

- to express an opinion on the regularity of the budget implementation for 2002, referred to the business operation of each auditee,
- to express an opinion on the regularity of budget implementation as a whole,
- to assess the implementation of the internal auditing standards.

The Court of Audit would have satisfied the legal requirements by reviewing the common part of the state budget, nevertheless the Court also tested individual parts of the state budget, namely of ministries and other above mentioned direct budget users. The Court of Audit expressed the opinion on the regularity of the state budget implementation. Apart from that it analysed internal auditing in 2002, in order to assess how the ministries address the internal auditing standards.

The Court of Audit tested the regularity of all three financial statements of the budget, namely revenue, expenditure, financial receivables and investments; borrowings and amortisation of debt. The Court of Audit reviewed the balance sheet of 31 December 2002.

The Court of Audit expressed a positive opinion on the financial statements of the state budget for 2002, except for the balance sheet. Nevertheless, it pointed out some of the inconsequence in presentations.

In the balance sheet of the state budget revenues and expenditure for 2002, the revenues represented 1.173.120.723 thousand tolar and expenditures 1.311.747.939 thousand tolar. Tax revenues represented the major part of the state budget revenues; therefore the auditors reviewed the tax revenues on the basis of recordings and reports of the Administration for public payments and the Tax Administration of the Republic of Slovenia. The Court of Audit found out that the records of the Administration for public payments were not adjusted to the records of the Tax Administration before the balance sheet of the state budget revenues and expenditure was prepared.

In 2002 among the expenditures there were also the payments of liabilities incurred in 2002 and paid in 2003. The expenditures were reduced for the amount of income due to repayment of the overpaid amount which had to cover the loss of the Pension and Disability Insurance Institute. The Institute refunded the funds to the budget in 2002. Balance of the account of investments and receivables for 2002 was positive.

The largest part of the revenues represented revenues from sales of shares (sale of shares of Nova Ljubljanska banka). Among the expenditures the use of funds increased, namely the revenues from sales of shares (privatisation) from 17 to 54 per cents. The expenditures for capital shares and investments were reduced from 32 to 1 per cent and expenditures for given loans were reduced from 51 to 35 per cents.

The Court of Audit found out that revenues from sales referred to privatisation were presented for 430.653 thousand tolar less than appropriate, because the recorded amount in the budget did not include the commission of the Slovene development company. The Slovene development company carried out compensation between its own liabilities and receivables before it allocated funds to the budget. Such practice is contrary to the principles of presentation, according to which the revenues and expenditures must be presented in gross values.

The proposal of the state budget for 2002 included the lending and repayment which had the debt in the amount of 277.166.323 thousand tolar and payment of debts in the amount of 142.702.437 thousand tolar. Compared to 2001, the incurred debt increased for 11 per cents in 2002; and payment of the debt reduced for 19 per cents. Net debt incurred in 2002 for 87 per cents more than in 2001. Compared to 2001, the State incurred debts on domestic market. Incurred debts abroad represent less than 2 per cents in 2002.

The Court of Audit found out that the debt in 2002 amounted to 266.964.349 thousand tolar and did not exceed the limit defined by the law.

In 2002 there was a particularity in presenting revenues and expenditures of the lending and repayments in line with the Act on funding basic developmental programmes of defence forces. According to that Act the incomes from loans on funding basic developmental programmes of defence forces is not presented as revenue in the lending and repayments on the day of receiving the funds. Without the particularity the incurred debts in 2002, presented in the lending and repayments, would amount for 1.380.507 thousand tolar more. The income from the loans on funding basic developmental programmes of defence forces amounted

15.850.000 thousand tolar in 2002, while in the lending and repayments the incurred debts amounted to 14.469.493 thousand tolar.

The Public Finance Act prescribes the exceptions in presenting revenues and expenditures, namely the changes in the management of the state debt can be presented only in the balance sheet. Without the exceptions the revenues and expenditures in 2002, presented in the lending and repayments, would amount for 24.297.644 thousand tolar less.

The Court of Audit reviewed the balance sheet and found out that most of the budget users did not submit the reports on annual inventory of funds and liabilities and did not carry out reconciliations. Due to that finding the auditors were not able to get the evidence on ownership, occurrence, and completeness of the items in the balance sheet. Therefore the Court of Audit did not express an opinion on the balance sheet.

When auditing the regularity of the budget implementation for 2002, the Court of Audit reviewed expenditures of each auditee by checking regularity of the implementation of their financial plans. Their expenditures represented 93, 9 per cents of all budgetary expenditures. The expenditures were classified into three segments:

- pay and other expenditures for the employees,
- current and capital expenditures,
- current and capital transfers.

In order to review the compliance between the expenditures and regulations, the Court of Audit used MUS method¹. The found irregularities were extrapolated and the assessments of irregularities for each segment and the whole budget were made. The use of the MUS method is presented in the Appendix 3.

Pay and other expenditures for the employees represented 74, 9 per cents of all budgetary expenditures for employees. The share of expenditures for employees represented 14 per cents of all budgetary expenditures in 2002. The Court of Audit found out two types of irregularities referred to expenditures for employees:

- irregularities in employing, allocating staff to work posts,
- irregularities in accounting and allocating pay and other bonuses to the employees.

Current and capital expenditures of the audited budget users represented 88, 4 per cents of all current and capital expenditures of the state budget of 2002. The audited budget users improved their processes of defining and using measures for the selection of the best tenders. The most common irregularities were referred to public procurement of small value items.

Current and capital transfers of the audited budget users represented 99, 7 per cents of all current and capital transfers of the state budget of 2002. They represented 65, 2 per cents of all budgetary expenditures. When reviewing those payments, the Court of Audit found out that transfers were allocated without public invitations. If the public invitations were published, there were irregularities referred to designing and using criteria for the selection of beneficiaries and funds.

On the basis of the assessments presented above, the Court of Audit issued an opinion with reservations for the state budget 2002.

The Court of Audit issued the following opinions on the regularity of the implementation of the financial plans for 2002 to the:

- Ministry of finance a positive opinion,
- Ministry of interior a positive opinion,
- Ministry of transport a positive opinion,
- Ministry of labour a positive opinion,
- Ministry of health a positive opinion,
- Statistical Office of the Republic of Slovenia a positive opinion,
- Ministry of external affairs an opinion with reservations,
- Ministry of defence an opinion with reservations,
- Ministry of justice an opinion with reservations,
- Ministry of economy an opinion with reservations,
- Ministry of agriculture an opinion with reservations,

¹ Monetary Unit Sampling

- Ministry of environment an opinion with reservations,
- Ministry of information society an opinion with reservations,
- Ministry of education an opinion with reservations,
- Ministry of culture an opinion with reservations,
- Joint Service of the Government an opinion with reservations,
- Slovene Academy of Sciences and Arts an opinion with reservations.

When reviewing internal auditing standards, the Court of Audit assessed that they were met, considering the fact that internal audit services at ministries started operating in 2000.

The Court of Audit issued the demand to submit the response reports to 12 ministries. The response report had to be submitted also by Slovene Academy of Sciences and Arts. The response reports have to be delivered in 90 days, afterwards the Court of Audit tests the credibility of the reports and assesses if the remedial measures are satisfactory. On the basis of the findings the Court of Audit issues the post-audit report.

Audit of Business Operation of the Health Insurance Institute

In 2003 the Court of Audit completed regularity audit of the Institute's business operation, namely for 2002, which included audit of the financial statements and of compliance of business operation and regulations related to the allocation of pay and other bonuses for the employees, public procurement and current transfers.

The Court of Audit expressed a positive opinion on the financial statements for 2002, but the business operation of the Institute was not in line with the regulations therefore the Court of Audit expressed a negative opinion. The Institute did not comply with the rules when allocating transfers for medical and technical instruments, mainly because the suppliers of the medical and technical instruments were not selected on the basis of the public invitation and there were not at least two valid bids. The irregularity on the area of the public procurement of smaller value items was related to insurance, i.e. the Institute paid insurance policy for vehicle to the Insurance company Triglav on the basis of the annex to the policy. Material irregularities were found out on the area of transfers for medical and technical instruments, where all audited payments were carried out incorrectly on the basis of a contract made in 1996. The Institute made annexes to the contract in order to coordinate prices. The Institute did not carry out public procurement for the purchase of those goods in 2002.

The Court of Audit did not demand a response report from the Institute, because the irregularities were remedied during the audit. The following appropriate remedial measures were adopted:

- Public procurement of specific instruments was implemented in line with the Public Procurement Act. The contract with new tender was made on 7 October 2003.
- On the basis of the meeting of the board of directors the Institute also carried out public procurement processes for other medical and technical instruments.
- The Institute adopted amended rules on internal organisation therefore the working conditions improved, and the public procurement department was strengthened.
- The internal audit service was given a proper position in the organisation – the head of the internal audit service is attending meetings of the management, there is an auditor of IT who is reviewing internal controls operation, new rules on internal audit was adopted, two auditors were trained for the internal state auditor.

Audit of Business Operation of the Pension and Disability Insurance Institute

In 2003 the Court of Audit undertook two audits of the Pension and Disability Insurance Institute, i.e. for 2001 and 2002. For both years the audits covered financial statements of the Institute and compliance of business operation of the Institute with the regulations in implementing the financial plan, pay and other bonuses to the employees, current expenditures, capital expenditures and current transfers.

The Court of Audit verified the financial statements for 2001, but for 2002 it expressed reservations due to depreciation of computer equipment, which was for 55.840 thousand tolar too high, while the equipment and basic assets were undervaluated in the balance sheet of 31 December 2002. The irregularity was amended during the audit.

The Court of Audit also pointed out the capitalisation of the Real estate fund in 2001 and 2002 by the Institute, which was not recorded and presented in the long term financial investments of the Institute due to not clear legal provisions.

Real estate fund informed the Institute on new value of the revalorized founding share of the Institute which should have been included in their final financial report. The basic capital of the Real estate fund is apartments bought by funds from the contributions for pension and disability insurance. The Institute should not present the assets, because the fund was separated from the Institute and the State was handed over the founders rights. The Court of Audit requested from the Government of the Republic of Slovenia to explain the status of the Institute in relation to the Real estate fund, because of inconsistencies between legal provisions. The Government did not give an explanation. The Governmental Office for health, labour, family, social affairs and the disabled agreed that the Government should review the issue of legal rights related to the Real estate fund.

The Institute is formally the only owner of the fund. The Court of Audit believes that the Institute and the Government should clarify issues referred to the ownership. Only after the discrepancies are clarified the Institute shall be able to record and present the long term financial investments correctly.

In the opinion on the financial statements for 2002 the Court of Audit pointed out the incurring debts of the Institute at banks. The Institute incurred debts instead of the State who should provide to the Institute the funds either from the budget or other source.

In 2002 the Institute carried its business operation in line with the relevant regulations. On the contrary, in 2001 the Institute did not comply with the regulations in several cases. It was found out that the Institute incorrectly accounted and allocated bonuses for employees' readiness at home. The Institute did not regulate the employees' readiness at home, and it did not manage the records of employees' readiness at home. Apart from that the Institute carried out public procurement without public invitation and contrary to its rules on public procurement process on smaller value items.

Due to the negative opinion on compliance with regulations in 2001, the Institute had to prepare the response report where the remedial measures were presented:

- The implementation of the records of employees' readiness at home and the allocation of bonus on employees' readiness at home in line with the provisions of collective agreements,
- The improvements on public procurement processes, on control environment with internal controls that detect and prevent the irregularities.

In March 2003 the Institute amended the rules on flexible work time where the types of work and time for employees' readiness at home, and the method of recording it. The new rules define the payment for employees' readiness at home in line with the collective agreement for non-commercial activities. The remedial measures on the area of public procurement were assessed as satisfactory, as well. The Institute completed the public procurement for cleaning services, supply of cleaning materials, printing of forms, durable goods and computer forms in 2003. The Institute adopted an internal act on public procurement of smaller value items, which shall contribute to the reduction of irregularities. Furthermore, it designed two new organisational units: public procurement unit (two employees) and internal audit service (three auditors). The Court of Audit considered that as an important improvement.

Audits of Business Operation of Municipalities

The Court of Audit considers auditing the state and municipal budgets as the most important tasks of the external audit practice. When auditing municipalities the auditors use the same audit methods, techniques and measures for evaluating the findings as when undertaking audits of the state budget. In the following paragraphs the most common or the most important errors and irregularities from 15 audit reports on municipalities which were issued in 2003 are presented.

When reviewing *the annual financial report for 2001* of seven municipalities the Court of Audit issued positive opinion for four of them and opinion with reservations for three of them, mainly because of errors referred to classification of expenditures into budget lines and accounts and non recording and not presenting certain income and expenditures. In Municipality Piran they did not record payments of interests and bank services nor earmarked income for payments of principals, interests and bank services. In Municipality Ljutomer they incorrectly recorded capital transfers, current expenditures, current transfers and capital expenditures nor did they prepare balance of income and expenditure in line with the economic classification. The Municipality Ljubljana presented the payments of commodity credit as current expenditure in balance of income and expenditure and not in the statement of financing. Municipality Piran did not present payments of principals for three long term loans, therefore the expenditures were underrated.

The reviews of some data from the *balance sheet* showed that there were several cases of incomplete records of the short term and long term liabilities, short term and long term receivables, unpaid income and expenditures.

The Court of Audit pays special attention to *the regularity of the budget implementation*. It is considered one of the key audit objectives. In all 15 audit reports issued in 2003 the audit objective was testing compliance between the business operation and the valid rules. There were nine opinions with reservations and six negative opinions. The following irregularities were found out:

Implementation of the financial plan

- The scope of the funds was exceeded above the allowed budget,
- The funds of the budget were incorrectly allocated,
- Reallocation of funds in the budget was implemented without appropriate authorisation (Municipality Trbovlje).

Revenue

- One municipality did not present the income from tax due to environmental burdening,
- One municipality did not present the objectives of sale and reasons for sale, as well as methodology of sale.

Employment, pay and bonuses

- Employees who did not fulfil all conditions were allocated to work posts (years of work experience, education) – ten municipalities; in one municipality five employees were allocated to work post that were not in their systematisation;
- Two municipalities incorrectly defined the basic pay quotient,
- Bonuses to the employees were incorrectly allocated (bonus for labour period, management, ...),
- One municipality paid performance bonuses to employees in the scope that exceeded the allowed limit,
- One municipality unduly paid contribution for noncompulsory health insurance.

Public procurement

- The public procurement process for maintenance of municipal roads were incorrectly carried out in two municipalities, while in one municipality a contract was made for maintenance of municipal roads without public procurement,
- Municipality Tišina incorrectly carried out public procurement for collection of dangerous and waste material, for maintaining parks and implementation of winter services. One public procurement was considered valid eventhough there was only one valid bid,
- One municipality made a contract with a tender who was not the most satisfactory,
- Municipality Ljubljana in three cases did not carry out public procurement process,
- Municipality Brežice in two cases did not carry out public procurement process, in one case it was contrary to the prescribed procedures,
- There was no concession contract made between the municipality and public service provider which was not public institute (Ljutomer),
- When purchasing items of smaller value the municipalities did not follow their internal rules (Cerkvenjak, Sveti Jurij, Tišina, Trbovlje, Podčetrtek, Ljutomer and Ljubljana);
- Two municipalities made annexes to contracts for additional work without preliminary publication.

Transfers

- There were transfers or subsidies allocated without public invitation (Tišina, Vrhnika, Litija, Novo mesto),
- There was subsidy for agriculture allocated above the authorised sum (Domžale).

Liabilities

A municipality can incur liabilities only in line with the funds earmarked in the budget, that rule was violated many times. Three municipalities incurred higher amounts of liabilities than defined in the budget; or they incurred liabilities without any legal authority. Municipality Ljubljana incurred liabilities above the limit approved by the council, Municipality Brežice paid more than agreed in the contract.

Incurring debts and giving guarantees

- One municipality exceeded the allowed scope of incurring debt and hired a long term loan without minister's approval,
- One municipality exceeded the allowed scope of payment of principals and interests,
- One municipality gave guarantees to two companies without any legal basis.

Municipalities as founders of public companies

The Municipality Ljubljana committed the following irregularities relating to the management of Holding Ljubljana and Public Utility Energetika Ljubljana:

- The founders rights were turned over to Holding Ljubljana what is contrary to the provisions of the Act on commercial public companies,
- Capital investment in Holding was contrary to the legislation,
- The municipal council did not carry out control over the public utilities in Holding Ljubljana, since Holding Ljubljana implemented the tasks of the founder, furthermore the mayor was participating at board meetings without any directions from the municipal council,
- Authorities between the municipality and Holding were not appropriately segregated (referred to organisational, developmental, professional tasks),
- Municipality Ljubljana did not carry out appropriate control over incurring debts of the public utilities.

Due to the disagreements between the mayor and the municipal council of municipality Trebnje concerning the appointment of the director of the public utility Komunala Trebnje, the operation of the public utility was interrupted. The municipality did not carry out control over the public utility as a founder should.

Audits of the Public Utilities

Audits of communal companies

In 2003 the Court of Audit issued 3 audit reports on business operation of communal companies: audit report on financial statements and regularity of business operation of Komunala Trebnje for 1999, 2000, 2001; audit report on regularity of business operation of Kočevje Hydrovod and audit report on regularity of business operation of Koper Rižana water system for 2001.

The regularity audit (compliance with legislation) comprised the following:

- Planning and reporting on business operation,
- Investing in water supplying system and their financing,
- Accounting and presenting taxes,
- Expenditures and income from drinking water supplying,
- Own and market price of water supply.

The Court of Audit reviewed financial statements of Komunala Trebnje in 1999, 2000, 2001 and issued an opinion with reservations, due to lacking documentation and errors in presenting grants for financing infrastructure, equipment, and mechanisation in the period from 1993 to 1999.

The compliance of business operation with regulations was audited in all three cases. The main findings are presented in the following paragraphs.

- The Court of Audit issued a negative opinion on business operation of Komunala Trebnje for 1999, 2000, 2001, due to the incorrect calculation of the price of water supply in 2001. Furthermore the costs were incorrectly classified what was the cause of their demand to increase the price of water supply. There were also material irregularities in accounting liabilities for water refundation, reporting on use of revenues from taxes and in making contracts on granting loans, eventhough the public utility did not get the authorisation of the founder.
- The Court of Audit issued a positive opinion on compliance between business operation of Hydrovod and rules, with a comment that there were minor irregularities and weaknesses found (on the area of recording business transactions and managing contracts with municipalities). Those irregularities were remedied already during the audit implementation.

- Koper Rižana water system did not comply with rules in some cases therefore the opinion with reservations was issued. In accounting it did not comply with the provisions of the Slovene Accounting Standards no. 35 and of the Act on Commercial Companies. There were also minor irregularities in defining costs for the implementation of public service. The irregularities were remedied during the audit implementation.
- The demand to submit the response report was issued to Komunala Trebnje. In the post audit report it was assessed that the public utility presented satisfactory remedial measures with exception of one of them. Komunala Trebnje stated in the response report that it carried out analysis of business costs as demanded by the Court. Nevertheless the analysis was not submitted. The utility presented new key for classification of costs which is based on income and expenditures of the public utility. The Court believed it was not the most appropriate method for classification of costs. The selected method is not in line with the Slovene Accounting Standard no. 16, which precisely defines classification of costs.

Audit of Business Operation of Holding Ljubljana

Audit of business operation of Holding Ljubljana, the company for managing public utilities, covered 2001 and 2002 and was carried out in a limited scope. The main objective was to issue an opinion on regularity and effectiveness of business operation. Furthermore the audit addressed the following issues: how does Holding manage and control public utilities, how does it direct financial investments. The focus of the audit was on business operation of Energetika Ljubljana in relation to the purchase of shares of the Slovene Investment Bank.

The audit found out material irregularities, therefore the negative opinion was issued. The most evident irregularity was incorrect granting of the guarantees to public utilities, inappropriate management which did not prevent the purchase of shares of Slovene investment bank. The Court of Audit found out that:

- The purchase of shares was not well prepared and was implemented inappropriately without preliminary financial review,
- The purchase was not in the business plan of the public utility Energetika Ljubljana,
- The decision on purchase was not agreed at the meeting of Holding.

The main objective of Holding is to manage seven public utilities as dependent companies. Therefore Holding must co-ordinate their developmental programmes and direct their financial investments. In line with the above, Holding should have provided for the public utilities to carry out investments which promote the development of public utilities and address public interest.

When investing in the Slovene investment bank, Holding did not implement its managerial tasks. Due to the value of the investment and due to the negative impacts of it, the Court of Audit assessed that business operation of Holding related to the management of seven public utilities was inefficient. There is a question whether there is a point in connecting seven public utilities into holding. The current establishment of the seven public utilities into holding enable them to avoid the direct control of local communities.

The Court of Audit demanded the response report which had to include remedial measures referred to:

- Commencement of the procedures for defining new legal relations between Holding and subordinate companies;
- Introducing new practice in management of public utilities which are joint into Holding, mainly referred to financial investments and incurring debts of the public utilities.

In 2003 Holding started implementing procedures for a new legal arrangement of relationships between Holding and dependent companies. Holding prepared draft Act on establishment of joint body for public utilities and delivered it to all majors of the municipalities who founded Holding. The municipalities had to present it at the municipal council. That activity was assessed as satisfactory; nevertheless it cannot be completed by Holding because it is beyond its authorities. New practice in managing public utilities joint in Holding was presented, it will help to implement the control, but it cannot prevent weaknesses in the operations of Holding. Measures were referred also to managing public utilities on the area of directing and controlling investments and incurring debts. Holding prepared the review of incurred debts by the public utilities, furthermore public utilities were requested to report monthly on their financial operations.

Audit of Business Operation of the Public Utility Energetika

The audit of regularity and performance of business operation of the public utility Energetika for 2001 and 2002 was referred to the purchase and sale prices of heating, gas and to financial investments, namely into

Slovene investment bank. The audit included testing of income and expenditures, prices of gas and heating, investments into heating infrastructure and financial investments.

It was found out that Energetika in several cases acted contrary to the regulations, therefore the negative opinion was issued. For the purchase of the shares of the Slovene investment bank, Energetika spend public funds in the amount of 3.472.288 thousand tolar. The purpose of the purchase was contrary to the activities of the public utility and was a violation of the operational efficiency. Energetika spent the funds for the purchase of shares, but the funds should have been used for the development of public services. The procedure of purchase was not in line with the legislation. Furthermore, several irregularities were found on the area of public procurement (violations of the Public Procurement Act), on the area of pay (additional pay was allocated to three managers in 2001 and 2002).

The Court of Audit assessed that the inefficiencies in business operations caused poor business results in 2002. The purchase of shares did not achieve objectives which were set, therefore Energetika lost those funds which would have to be used for its basic activities.

Energetika had to submit the response report to the Court of Audit. The response report had to include remedial measures referred to: commencement of the procedures for defining new legal relations between Holding and Municipality Ljubljana and other municipalities. Furthermore, Energetika had to improve the control environment, introduce new controls and improve the old ones, which would prevent and detect irregularities in financial investments, public procurement, allocating pay. The measures had to include the irregularities referred to additional pay.

Energetika adopted an internal act on guides referred to financial investments which help to prevent, detect and remedy irregularities. Energetika adopted appropriate measures for improval of control environment. Illegal payments of additional pay for 2001 were remedied, but for 2002 were not remedied. Their inactivity was explained by the costs which would be incurred, i.e. the costs would have been higher than the expected benefits.

Audit of the Railway Puconci–Hodoš–State Border Construction

The regularity and performance audit of the railway Puconci-Hodoš-State border construction in the period from 1995 to 2002 was carried out in co-operation with the State Audit Office of Hungary, who proposed the audit methodology. The audit objective was to issue audit opinion on regularity and performance of planning, financing, implementing and managing the investment in the railway construction, on compliance between environmental demands and the adopted location plan and construction permit and on achieving planned impacts of the railway in the first year of its operation. The performance audit was reviewing if the parameters, on the basis of which the measured investment impacts were planned, were achieved (quantity of cargo transport). Furthermore, it investigated the reasons for changes of the investment and contracts for hiring loans.

The subject of the investment was the construction of single-track, non-electrified railway line for passenger and cargo transport in the length of 25 kilometres, with a tunnel of 320 metres, two crossovers and two underpasses, six bridges, three underpasses and 78 passages, construction of the lighting–safety devices, construction of the telecommunication devices, bypass and tree railway stops, Hodoš border crossing station and environmental arrangements. The selected railway route allows top speed limit of 160 kilometers per hour, and average speed limit of 120 kilometers per hour (the speed of passenger trains is 120 kilometers per hour and of cargo trains 80 kilometers per hour). The railway line allows the capacity of 44 trains a day, the planned cargo transport amounts of 10, 8 million tons per year.

In 1998 the Government of the Republic of Slovenia appointed railways administration - Slovene Railways for managing the investment (construction of the railway line Puconci-Hodoš-State border). There were 63 contracts made with the external service providers. In total the contract value, which included costs referred to land purchase, renting and servitude rights of the land owners and indemnities, amounted to 21.818 million tolar. The work included railway construction work, delivery and setting up lighting–safety devices, telecommunication devices, engineering and architectural work. Most of the contracts referred to the implementation of work and services related to nature protection and land-registry tasks (studies, monitoring ...). The Court of Audit reviewed the public procurement of the construction of the first phase of the railway line, the supply and delivery of lighting–safety devices on the railway track and the establishment of substitute Breeding Hunting Ground Kompas. Some irregularities referred to the use of criteria in the public procurement process

were found out, but the Court of Audit assessed that they did not influence the objectivity of the selection process. Furthermore, the State Public Procurement Review Office reviewed the case and expressed an opinion that the Slovene Railways acted in line with the Public Procurement Act.

The auditors closely reviewed the additional work and changes in construction that increased the value of the investment. In the period of adopting location plans, the investment value increased due to the demands of local communities. During the investment implementation the value increased due to unpredicted construction work and introduction of the VAT.

The total value was assessed in the amount of 13.365,4 million toolars, by the end of 2002 the additional funds in the amount of 22.333 million toolars were allocated to the project.

On the basis of the results of testing the Court of Audit issued the opinion that Slovene Railways in the period from 1998 to 2002 acted in accordance with the regulations, when implementing the investment of railway construction Puconci-Hodoš-State border.

The auditors of the Court of Audit found out that in the period from 1998 to 2002 the Slovene Railways managed and monitored investment implementation and changes of the investment. Due to unpredicted and other additional work and introduction of the VAT the total value of the investment increased for 5.630 million toolars. All changes of the investment were correctly recorded and approved. The Slovene Railways provided appropriate management and therefore reached the objective of railway construction and railway operation in due time.

The assessment of the performance was based on the following issues:

- When planning the investment not all appropriate financial sources were considered, apart from the planned budgetary funds the loans were taken up, which represented 88 per cents of the total value. In the financial construction of the sources the costs of financing and settlement of loans were not included.
- The State could have saved the amount of 14,3 million toolars, if the dynamics of obtaining loans was more appropriate.
- The expected impacts of the railway construction were not realised. On the basis of data on cargo transport via new railway track in 2002 it was found out that the basic predictions on railway cargo annual growth rates were not planned realistically, since in the first two years of railway line operation only 68,1 per cent of the planned quantities were achieved. The passenger train capacities were not used properly as well.



The cover of the joint audit report on the railway construction Zalău-Bajánsegye-Hódos-Murksa Sobota

The planning and the implementation of the railway line was undertaken by Slovenia and Hungary, therefore both countries decided to carry out the parallel audit and to present the findings in the joint audit report. In April 2003 the Audit Report on Railway Construction Zalău-Bajánsegye-Hódos-Murksa Sobota was

issued. The audit report included information on the project of railway construction, results of the analysis and audit findings in Hungarian, Slovene and English. Furthermore, there were also assessments of the construction by phases and joint recommendations which aim at closer co-operation in planning, managing and monitoring of joint projects.

Audit of the Regularity of Business Operation of Post Slovenia in 2000 and 2001

The audit subject of the audit of the public utility Post Slovenia for 2000 and 2001 was the implementation of the public commercial services which include postal and other services. The audit objective was to express an opinion on compliance between the business operation of the Post and valid regulations.

The Court of Audit tested:

- the regularity of classification of income and expenditure in the books and financial statements,
- the regularity of defining costs per postal services and other services,
- the compliance between the presented costs of work, material costs, costs of services and collective agreement, acts, business plans, business reports and other regulations,
- the compliance between the public procurement processes and made contracts, investment programmes, business plans, business reports and regulations.

The audit found out that Post Slovenia in several cases acted incorrectly, therefore the opinion on the compliance between the business operation and regulations was negative. The key irregularities which were found out are presented in the following paragraphs:

- Post allocated reimbursement for not used annual holidays for 1999, 2000 and 2001 without legal basis; therefore it violated the provisions of the International Convention on annual holidays and the Act on basic rights from labour relationship.
- Post unjustly allocated reimbursement due to competition clause to three employees whose employment was terminated, because two of them were pensioned off, the third one occupied a position without a requirement for a competition clause.
- Post insured all employees also for the cases which were not linked with work. The paid insurance premium included insurance for sickness, for death due to sickness and for temporary work incapacity. The Court of Audit considered such payments as a burden of a state budget and as irregularities.
- Because Post did not follow the decision of the Constitutional Court, it delayed the payments of the VAT from postal services; consequently Post had to pay interests for delay.
- Post acted contrary to the rules related to public procurement when implementing investments. Most of irregularities were linked to the insufficient, inappropriate or delayed investment programmes, to violations of Public Procurement Act, to too early beginning of public procurement procedures, meeting time limits.

Post Slovenia had to deliver to the Court of Audit the response report. The remedial measures of Post were assessed as satisfactory, since Post stopped paying annual holidays to the employees as a compensation for not used holidays, in April 2003 it made a new contract on insurance. The employees are insured only for the case of an accident causing death or disability during work time. In order to improve public procurement process Post introduced several measures to prevent or detect irregularities in public procurement (a sector for investments and procurement was established, internal rules for public procurement and internal audit were adopted, the stress is placed on training on the area of public procurement).

Audits of Business Operation of Non-commercial Public Services

Audits of Primary Schools

In 2003 the Court of Audit completed three audits of financial statements and regularity of business operation for 2001, namely of Primary school France Prešeren, Kranj; Primary school St. Jurij ob Ščavnici; Primary school Janko Padežnik, Maribor. In all three cases the audit subject was to review regularity of the recording and presenting data in balance sheet of 1 January 2001 and of 31 December 2001 and in the statement of income and expenditure for 2001, and to review the compliance between business operation and regulations.

Due to insufficient documentation in Primary school Janko Padežnik, the audit work was hindered. The Court of Audit was not able to verify records in balance sheet and income statement (i.e. receivables, costs of work, reimbursements of cost for transport and food, revenue from sale on market, performance bonus, business trips

costs). Therefore the Court of Audit rejected to give an opinion on the financial statements of the school for 2001. For the other two primary schools the Court of Audit verified financial statements, because there were no material misstatements or incompatibilities with rules.

The Court of Audit issued a positive opinion on compliance between business operations and rules for Primary school France Prešeren, Kranj and Primary school St. Jurij ob Ščavnici. As mentioned above the auditors were not able to review business operation of Primary school Janko Padežnik, Maribor in relation to pay, bonuses, reimbursements, nevertheless there were enough audit evidence to express a negative opinion on compliance between business operation and regulations. It was found out that school did not have an internal regulation on public procurement of smaller value items, therefore it should have followed the Public Procurement Act. Furthermore the school did not comply with the Slovene Accounting Standard no. 22.1 (timeliness, completeness).

The opinions on compliance between business operation and rules for all three schools were supplemented with a paragraph where the Court pointed out the weaknesses related to separate monitoring of business operation and presentation of business result. Schools assured to remedy the weaknesses therefore they did not have to submit the response report.

Audits of Business Operation of Homes for the Aged

In 2003 the Court of Audit completed three audits of homes for the elderly, namely Danica Vogrinec Home for the Aged, Maribor; Lukavci Centre and Home for the aged Kočevje. Audit subject of all three audits were financial statements and compliance of business operation and regulations related to the allocation of pay and other bonuses for the employees and public procurement for 2001. The audit of Lukavci Centre included the review of business operation in 1999 and 2000.

Due to errors in accounting revalorisation and in presenting liabilities, Danica Vogrinec Home for the Aged was issued an opinion with reservations. The Court of Audit did not find any material misstatement when auditing the other two auditees, therefore it verified the financial statements.

When testing compliance of business operations with regulations important irregularities were found in all three institutions. Therefore the Court of Audit issued negative opinions for all three auditees. The key irregularities are presented in the following paragraphs.

Danica Vogrinec Home for the Aged, Maribor

- Home did not follow the Public Procurement Act and internal rules on public procurement when selecting suppliers.
- Home violated Act on pay in public sector, because in 2001 it allocated to the employees performance bonus above the allowed limit without appropriate approval.
- Three employees were unjustly paid bonus for work with mentally handicapped.
- The employees were incorrectly allocated reimbursement for food.
- In paying overtime work there were several irregularities found (one employee was unjustly allocated bonus for overtime work).
- The analytical review showed that Home incorrectly accounted the reimbursement for holidays in 2001.

Lukavci Centre carried out public procurement processes without public invitations or contrary to the provisions of the Public Procurement Act. The bonus for employees' readiness at home was paid eventhough there was no legal basis for that. Furthermore the reimbursement for food was incorrectly paid to the employees.

Home for the aged Kočevje did not follow the provisions of the Public Procurement Act when selecting suppliers, apart from that it did not consider the provisions of the internal act on procurement of small value items. Home managed pensions of the aged, eventhough it did not have registered that activity. When auditing pay and bonuses it was found out that there were several irregularities related to allocation of reimbursement and bonuses and to defining basic pay quotient and some specific bonuses (work with the disabled, impacts form environment, stress...).

Eventhough Danica Vogrinec Home for the Aged, Maribor; Lukavci Centre and Home for the aged Kočevje remedied some irregularities during the audit, they had to submit the response report. The auditees had to present undertaken measures for improving business operation related to public procurement, control environment,

for adjusting reimbursements with the valid regulations and for correct accounting and allocating bonuses. The Home for the aged Kočevje had to adopt measures for remedying irregularities related to management pensions, defining quotients of basic pay and bonuses.

The remedial measures which were presented in the response reports of the Danica Vogrinec Home for the Aged, Maribor and Lukavci Centre were assessed as satisfactory. While the Court of Audit estimated that Home for the aged Kočevje presented measures referred to public procurement, which were not appropriate. The part of the response report related to the allocation of pensions was not credible, therefore the Court of Audit did not assess it. The post-audit procedures are presented in detail under the title Results of the post-audit procedure.

Audit of Business Operation of Health Centre Izola

The audit objective of the regularity audit of Health Centre Izola for 2001 was to express an opinion on compliance between the business operation and valid regulations. The stress was on work costs, travel costs and public procurement.

The audit found out that the Health Centre in several cases managed its business operation irregularly; therefore a negative opinion was issued. The key irregularities were in defining, accounting and paying pay and other costs of work, costs of business trips (there were no evidence of occurrence) and in selecting suppliers (contrary to the Act on Public Procurement).

The Court of Audit reviewed defining pay and reimbursements and found out the following irregularities:

- the base for the calculation of the hourly item,
- Sunday work was accounted for 30 per cents more than allowed by the law,
- management bonus was incorrectly defined,
- quotients for duty hours were not defined in line with the collective agreement,
- basic quotient for pay was not defined in line with the Act on pay relations,
- bonus for working period was incorrectly defined,
- the bonuses for certain responsibilities were incorrectly defined (for health care, management ...),
- there was violation of the Act on labour relationships, i.e. the limit of overtime work.

Health Centre Izola had to adopt remedial measures on disclosed irregularities and present them in the response report. The measures referred to the improvement or designing of the internal controls, which would prevent and detect irregularities on the area of public procurement, costs of travel, overtime work, defining and allocating pay and bonuses. The post-audit procedure was not completed in 2003.

Other Audits

Privatisation Audits

In 2003 there were two privatisation audits implemented, their objective was to review the regularity and performance of the sale of the state assets, namely sale of shares of Petrol in 1998 and sale of shares of Nova Ljubljanska banka in 2002.

The audit was the Government of the Republic of Slovenia, who is responsible for management of state assets and real estate. The subject of the first audit was the sale of 326.039 shares of Petrol, that represents 15,63 per cents of the ownership by the Republic of Slovenia. On the basis of the review of the documentation related to the sale procedures, analysis of data and review of market prices of shares of Petrol, the auditors obtained evidence. The auditors carried interviews with the representatives of the group which was involved in the sale and with representatives of the Ministry of economy.

The audit of the sale of shares of Petrol showed that the Government carried out the sale in line with the regulations. The sale of shares and capital gain were planned in the proposal to the budget 1998.

The decision of the Government to keep the sale confidential was not implemented, that could have influenced the achieved purchasing price. Nevertheless the assessment of the auditors was that the sale was successful and that the sale objective was achieved. The transparency of the business transaction (as defined among the sale objectives) was assured, the cost of the sale procedures were insignificant.

The audit of the sale of 34 per cents of shares of Nova Ljubljanska banka in 2002 included the review of the documentation related to the sale procedures, analysis of data and activities of the committee for management and control over the sale procedures, and interviews with the representatives of the committee and the Ministry of finance, review of information on purchase price and costs. The Court of Audit requested Nova Ljubljanska banka to present its assessment of the sale.

When designing the audit opinion the following issues were considered:

- The objective of the privatisation programme of the Nova Ljubljanska banka was to achieve the highest possible purchasing price, but the purchasing price was not expressed in a value.
- The audit did not include the data on the use of funds by the republic of Slovenia for the reorganisation of Nova Ljubljanska banka.
- The contract on sale included specific guarantees for the purchaser which were not defined in the documentation. The audit report presented opinions of the experts who were hired by the Government.
- The contract between share holders included a clause on limitations for the purchaser to continue with purchasing of shares of Nova Ljubljanska banka by 31 December 2005. The contract on sale of shares included a clause on limitation of sale of purchased shares by 31 December 2005.

The audit of the sale of shares of Nova Ljubljanska banka showed that the Government managed and carried out the sale in line with the regulations. The sale of shares was included in the programme of state assets sale for 2001. The method of sale was the two phased selection procedure what is in line with the legislation.

From the performance point of view, the sale was assessed as effective, since the purchase price for 2,6 times exceeded the book value. Compared to the ratios in Europe the Court of Audit assessed the sale as successful. The costs of the sale reached 1,2 per cents of the purchase price, therefore the sale of the shares of Nova Ljubljanska banka was economic.

Audits on Election Campaigns

In 2003 the Court of Audit implemented audits of business operation of the organisers of the election campaign for the president of the Republic. There were nine audit reports on the regularity of recorded funds in the Election Campaign Reports by the organisers of the election campaigns for the president of the Republic of Slovenia.

The Court of Audit reviewed whether the organisers collected and presented the funds for the election campaigns correctly, whether the funds were appropriately used and presented.

The Court of Audit carried out the review of the election campaign only in a limited scope due to the provision of the Election Campaigns Act. Article 24 of the Election Campaigns Act defines that the Court of Audit must test the collected and used funds for the election campaigns, whether the organisers obtained and allocated funds for the election campaigns in line with the legislation, whether the data presented in the reports on the election campaigns were correct. The Court of Audit must evaluate the amounts of partial refundation of the costs to the organisers of the election campaigns. The audit scope was limited by other provisions of the Election Campaigns Act, due to which the Court of Audit could not verify the completeness of the financial reports, namely could not confirm that all the funds allocated to the election campaigns were kept on a specific accounts and that funds spent came from those accounts:

- The reports on election campaigns must be submitted to the Court of Audit two months before the specific accounts are closed (the Election Campaigns Act). The organisers must report on all collected and used funds for election campaign. Nevertheless the organisers can use the specific accounts two months after the reports are submitted to the Court of Audit.
- The reports on accounts of election campaigns organisers are limited to the period of 6 months before the day of voting.

The Court of Audit reported on those weaknesses to the National Assembly and proposed the amendments of the Election Campaigns Act. Furthermore, the Court of Audit believes that the obligatory auditing of all organisers of election campaigns is not economic. It would be more appropriate to audit only those organisers whose candidates reached more than 10 per cents of votes of all voters, which gives them the right of partial refundation of their costs from the budget.

Results of the Post-audit Procedure

The post-audit procedure, which is a part of the audit process, includes the monitoring of audit impacts and the implementation of audit recommendations. The post-audit procedure starts after the audit is completed, in the form of a proposal to take legal action on the basis that a legal offence has been committed. Monitoring of the follow-up is necessary for improving business operation of the public funds users, for planning future audits, for assessments of Court's efficiency and effectiveness and for promotion of best practice. The post-audit procedure also includes reports on the remedial actions taken with regard to the disclosed irregularities and inefficiencies (response report). The Court of Audit presents the demand to submit the response report in the conclusion of the audit report, if there are irregularities or inefficiencies disclosed and the auditee does not adopt remedies. Seventeen audit reports (or 27 per cent of all reports) issued in 2003 included a demand to submit a response report. The Court of Audit received, in total, 22 response reports, tested their credibility and assessed the relevance of the remedial measures referred to the disclosed irregularities and inefficiencies. In three cases the Court of Audit expressed its doubt in the credibility of the response report, therefore the President used the possibility prescribed by paragraph 4 of Article 29 of the new Court of Audit Act; i.e. to test the credibility of the response report by implementing an audit. For the implementation of those three audits the Court used 40 auditor-days or on average 13, 3 auditor-days per audit. The time from issuing decree on audit implementation to issuing audit reports lasted on average 92 calendar-days.

In assessing the credibility of the response reports the Court of Audit found out that:

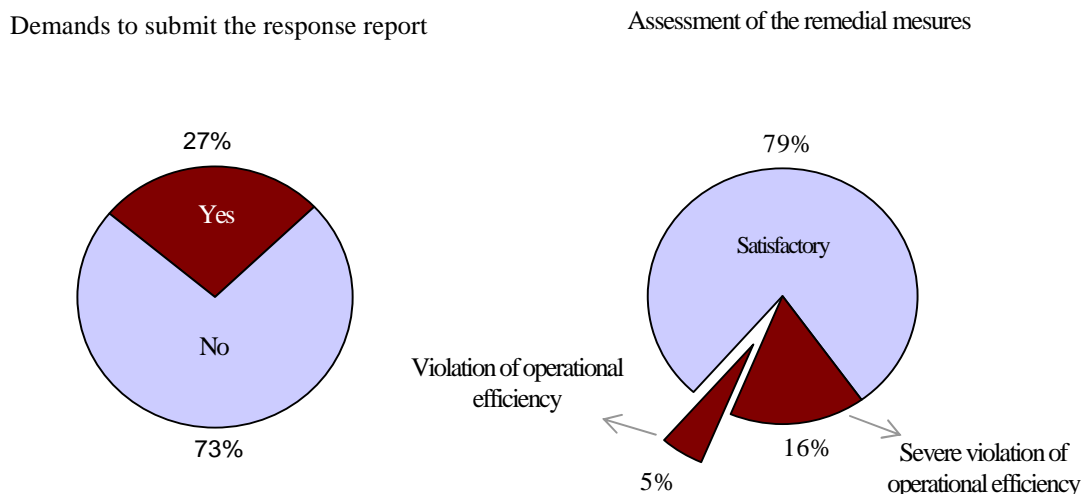
- *Governmental office for informatics* did not present the correct data related to the irregularities referred to the public procurement.
- *Kočevje Home for the Elderly* did not present the correct data related to the irregularities referred to the allocation of pensions to the elderly.
- *Health Centre Izola* did not present the correct data on bonuses for Sunday labour, managing tasks, nursing in the response report.

The Court of Audit assessed that in the above cases the response reports were not credible; therefore it issued the motions for prosecution.

The results of the tests and the assessments are presented in the post-audit reports. In 2003 the Court of Audit issued 19 post-audit reports. In all cases but three, the Court of Audit assessed the presented remedial measures as satisfactory.

Figure 9 shows the percentage of demands to submit a response report and the percentage of post-audit reports that were issued with the assessment of adopted remedial measures.

Figure 9: The percentage of demands to submit a response report and the percentage of post-audit reports that were issued



The auditees reported on the correction measures relating to 77 different irregularities a presented in the response reports. Most of the correction measures related to the improvements of employment policies and costs of work (33,8 per cents) and of public procurement procedures and strengthening of internal control systems (15,6 per cents). Other correction measures dealt with the irregularities relating to investments, business operations of the Tax Administration, managing expenditures, allocating subsidies and other state aids.

The Court of Audit assessed the correction measures as non-satisfactory at the following auditees:

- *Tax Administration of the Republic of Slovenia* – Clearance of unsuccessful bookkeeping entries was not implemented in such a way to keep the trace. It was assessed that the measures presented in the response report shall not increase the efficiency of clearance of the unsuccessful entries. Apart from that the response report did not show how the Tax Administration is planning to balance its records with the records of the Administration for public payments, since its central bookkeeping records (except for VAT) is not up-to-date, eventhough that is the basis for the balancing. The Tax Administration did not present the detailed plan with all activities, responsible people and time limits for procedures. Therefore it was not clear how the balancing of the taxes between the tax bookkeeping records and the data of the payment transfers shall be implemented by the end of 2003. It was assessed that joining data from different records would not add to completeness and timeliness of the tax administration. Just by following the data recorded the Tax Administration cannot reduce the insufficiency and delays. The Tax Administration did not provide for a satisfactory remedy of a disclosed irregularity, therefore the user of public funds *severely violated the requirement for operational efficiency* (paragraph 5 of Article 29 of the Court of Audit Act).
- *Ministry of external affairs* – the Ministry did not adopt a rules on public procurement referred to the embassies as defined in the Act on External Affairs. The Act entered into force in June 2001, the Minister in August 2002 appointed working group on public procurement. Nevertheless the response report states that the preparation of the rules on public procurement is a priority task. The instruction to order goods and services and presenting that in the monthly financial reports is not an excuse for not issuing the rules.

The Ministry of External Affairs was demanded to provide the response report also in the case of audit of the implementation of the financial plan for 2000 due to irregularities in the business operation; i.e. in public procurement, use of funds, irregular payments of bonuses and reimbursements. The correction measures presented in the response report were assessed as unsatisfactory in the post-audit report, since the Ministry did not:

- correct the unfairly paid bonuses for orderly duty,
- adopt appropriate measures to provide internal controls systems to operate and assure correct business operations in public procurement, in paying salaries and bonuses, in using budgetary funds,
- refund the incorrectly accounted and paid bonuses to pay,
- but it reimbursed costs for protocol suits to its employees.

In the review of remedial measures in 2003 the Court of Audit found out:

- that the Ministry did not improve the internal controls system in public procurement process and did not unify the processes of public procurement, but it improved the internal controls system for reviewing documentation which is delivered to the financial service,
- that the Ministry in internal act defined reimbursement of costs for protocol suits, eventhough there was no legal basis for it,
- that the Ministry did not reimburse the overpaid costs to the employees.

The Ministry of External Affairs in its response report did not provide for a satisfactory remedy of a disclosed irregularity, therefore the user of public funds violated the requirement for operational efficiency (paragraph 5 of Article 29 of the Court of Audit Act).

- *Governmental Office for Informatics* did not settle the overpaid bonus to the trainee. The audit of the credibility of the response report referred to the current and capital expenditure found out that the statements, concerning the public procurement of small value items, in the response report are not credible. The assertion of the Office that the public procurement of small value items were in line with the internal rules was not true. The Court of Audit reviewed the remedial measures referred to the pay and other bonuses allocated to the employees. It found out that they were not satisfactory.

The Governmental Office for Informatics in the response report did not provide for a satisfactory remedy of a disclosed irregularity (referred to the pay and other bonuses allocated to the employees) and it provided the response report which was not credible (referred to the current and capital investment), therefore the user of public funds severely violated the requirement for operational efficiency (paragraph 5 of Article 29 of the Court of Audit Act and paragraph 2 of Article 37 of the Rules of Procedure).

- *Kočevje Home for the Elderly* did not provide an authorisation for allocation of the pensions to the account of the Home, but 72 pensioners had their pensions allocated to that account in April 2003. It was found out that the Home allocated pocket money to two pensioners in the wrong amount, due to incorrectly accounted difference between the pension and the costs of care. Apart from that the Home did not allocate pocket money at all to 26 pensioners, even though it was accounted for and the money was paid from the Home's treasury. On the basis of that it was found out that the statement on implemented correction measure was not correct, therefore the response report was assessed as not credible. The review of the remedial measures referred to irregularities in purchasing goods and services showed that they were not satisfactory. It is necessary to set up internal controls on the area of purchases, if the internal acts and rules are to be respected in future.

The Home for the Elderly provided a response report which was not credible in the part referred to the remedial measures of the irregularities (i.e. allocation of pensions to the account of the Home). The Kočevje Home for the Elderly severely violated the requirement for operational efficiency (Article 37 of the Rules of procedure of the Court of Audit).

The Court of Audit notified the National Assembly on the cases of severe violation of operational efficiency in the case of Governmental Office for Informatics and Kočevje Home for the Elderly. After receiving such a notification the National Assembly must adopt a decision on measures to be undertaken (Article 29 of the Court of Audit). The Court of Audit issued a call for the dismissal of the officers responsible and delivered it to the relevant authorities; in the case of Governmental Office for Informatics to the Government of the Republic of Slovenia and in the case of Home for the Elderly to the Council of the public institution. The director of the Home was dismissed in 2003. The Court of Audit informed the public on the measures referred to the auditees in a special press release.

The introduction of the post-audit procedure has improved the efficiency of the state audit. Since the public funds users started addressing irregularities and inefficiencies sooner and introduced activities mainly on the area of internal controls. In that way they assist the auditors in disclosing possible irregularities and prevent the irregularities occurring in future.

In assessing the correcting measures of disclosed irregularities and inefficiencies, the Court of Audit encounters many problems since it is a relatively new procedure. The auditors lack experience in assessing the correction activities, as well as the auditees who have to report on them. The auditees face difficulties in selecting the appropriate remedial activities relating to disclosed irregularities and inefficiencies which have to be included in the response reports. Usually the auditees introduce the correction measures as a formal procedure but not on the operational level. The appropriate and satisfactory measures are achieved if the reasons for irregularities and inefficiencies are analysed. The correction measures should be based on the results of the analyses. In 2003 the Court of Audit assessed that three post-audit reports were not credible, that shows that the auditees did not consider the preparation of them as an important task.

Proposals for Commencement of Proceedings against Violations and Motions for Prosecution

In 2003 the Court of Audit filed two proposals for the commencement of proceedings against violations and filed seven motions for prosecution due to disclosed irregularities.

Violations

The Court of Audit filed the proposals to the Misdemeanour Judge due to the following disclosed irregularities:

- Irregularities in collecting and using funds when organising election campaigns (Article 18 of the Elections Campaign Act),
- Irregularities in defining pay (Article 22 of the Act on Payment System in public institutions, state bodies and local communities).

The Misdemeanour Judge did not adopt any decisions relating to the above proposals, neither did adopt any decision relating to the proposals filed in 2002.

Legal Offences

The Court of Audit filed, at the Ministry of Interior, seven notices due to suspicions of:

- forgery or destruction of the official document, book or official paper in three cases (one subordinate body of the ministry, two public institutions),
- giving away official secrecy,
- abuse of the official position or authority in two public institutions.

The authorised public prosecutor rejected one of the cases, for one case it introduced the investigation. The Ministry of internal affairs did not inform the Court of Audit on its decisions referred to the above mentioned notices.

Quality Control over the Implementation of Audits

Internal control

In 2003 the Court of Audit continued with the procedures of quality assurance that were successfully introduced at the end of 2001. The Supreme State Auditors, Deputy Presidents and the President of the Court with the assistance of the advisors and legal service implemented the internal control over the quality of auditing.

The internal control is implemented in the following ways:

- with continuous reviews of each activity in the audit process. Those reviews include examining the appropriateness and correctness of detailed audit plans and draft audit reports, proposed audit reports and final audit reports;
- with monitoring of the implementation of the Annual Programme through regular monthly reports. Those reports describe the status of the undertaken audits, propose other activities if the audit is not implemented in accordance with the plan.

In 2003 there were no spot examinations carried out; that is the review of an audit as a whole or a phase of the audit process, if a problem occurs during the audit implementation or if there is a doubt about the quality of audit results. The Court of Audit each year carries out an audit of its financial statements. The audit is undertaken by an auditor of the Court of Audit who is appointed as an internal auditor by the President. The internal auditor carries out its tasks in line with the Annual programme.

External control

The control over the ability of the Court of Audit to implement the activities of a supreme audit institution is carried out by the European Commission. The European Commission each year carefully reviews preparations for accession to the EU in the area of financial control. The representatives of the Commission visited the Court of Audit twice in 2003; they became acquainted with the work and the development of the Court. The Regular report for 2003 of the European Commission presented the assessment that the new Court of Audit Act assured appropriate functioning of the state audit, but it is necessary to complete the audit manual as soon as possible. The Commission estimated that Slovenia needs to ensure appropriate function of the external audit.

Eventhough paragraph 2 of Article 31 of the Court of Audit Act defines that the financial statements of the Court of Audit shall be audited by an auditing company, selected by the National Assembly upon the proposal of its working body responsible for budgetary and other public finance control, the financial statements of the Court of Audit were not audited in 2003.

Providing Audit Reports to the National Assembly

In all developed democratic countries Parliaments consider Supreme Audit Institutions important. Namely, the Supreme Audit Institutions communicate reliable information to the Parliaments on the use of public funds and on the implementation of the adopted legal acts. In the Republic of Slovenia the co-operation between the National Assembly and the Court of Audit is defined in the Court of Audit Act. In line with the Act the Court of Audit submits all audit reports to the National Assembly which is therefore able to overview the control over the use of public funds that is carried out by the Court of Audit. If the Court of Audit estimates that the auditee did not provide for a satisfactory remedy of a disclosed irregularity and inefficiency, if the requirement for operational efficiency has been seriously violated, the Court of Audit shall notify the National Assembly. The working body of the National Assembly responsible for budgetary and other public finance control shall adopt, after a discussion to which a representative of the user of public funds has also been invited, within the scope of its powers, a decision on measures to be taken in respect of the serious violation of the responsibility for operational efficiency. The authorised working body is the Commission for Budgetary and Other Public Finance Control. The decisions of the Commission help to improve the business operations of the users of public funds.

In 2003 the Court of Audit issued 65 audit reports. The Commission for Budgetary and Other Public Finance Control discussed seven audit reports and also 9 audit reports which were issued in 2002. The audit reports which were discussed by the Commission in 2003 are presented in Table 11.

Table 11: The audit reports which were discussed by the Commission for Budgetary and Other Public Finance Control in 2003

No. of the meeting	Date of the meeting	Audit report
19	14. 11. 02 2. 7. 03	Audit report on business operation of the Public utility Elektro – Slovenia in period from 1998 to 2001
18	7. 11. 02	Audit report on financial statements and on implementation of the budget of the Republic of Slovenia for 2001
20	12. 2. 03	
21	12. 3. 03	
22	18. 3. 03	Audit report on financial statements and on regularity of business operation of the Health Insurance Institute for 2001
23	15. 4. 03	Audit report on State election committee, referred to the use of funds allocated to the implementation of the elections for the National Assembly in 2000 Audit report on business operation of Postojna Municipality for 2001 Audit report on business operation of Kranj Municipality for 2001 Audit report on business operation of Velika Polana Municipality for 2000 and 2001 Audit report on business operation of Dobrova – Polhov Gradec Municipality for 2000 and 2001 Audit report on the programme of closing the Mežica Mine from 1996
24	15. 5. 03	Audit report on regularity of business operation of the Tax Administration of the Republic of Slovenia in 2001 and on performance of the business operation in 1999 to 2001
28	9. 9. 03	
27	4. 7. 03	Audit report on the credibility of the response report of the Government Office for Informatics
29	21. 11. 03	Audit report on financial statements and on implementation of the budget of the Republic of Slovenia for 2002
4.	19. 9. 03	Audit report on financial statements and regularity of business operation of the Kočevje Home for the Elderly for 2001 Audit report on financial statements and regularity of business operation of the Lukavci Centre in 1999, 2000 and 2001 Audit report on financial statements and regularity of business operation of the Home for the Aged Danica Vogrinc, Maribor in 2001
30	10. 10. 03	Audit report on financial statements and regularity of business operation of the Communal Company Trebnje for 1999, 2000 and 2001

Out of all audit reports issued in 2003 the Court of Audit in three cases assessed that the serious violation of the responsibility for operational efficiency occurred, since the budget user did not provide for a satisfactory remedy of a

disclosed irregularity and inefficiency. All three cases were discussed by the Commission for Budgetary and Other Public Finance Control and adopted the following decisions:

- *Kočevje Home for the Elderly* – the Commission discussed the issues and asked the budget user and the Government (the founder of the Home for the Elderly) to adopt measures for the prevention of further illegal business operation or serious violation of the responsibility for operational efficiency in 15 days. The Commission also asked the Ministry of labour, family and social affairs to prepare a report on the control over the operations of the homes for the elderly. It also asked the Bank of Slovenia to review the regularity of the implementation of payment orders to the pensioners at the Post Slovenia and Post Bank Slovenia.
- *Government Office for Informatics* - the Commission asked the Government to prepare the comparative review of the organisations of the governmental offices for informatics in European countries (Finland, Ireland, Netherlands, Austria) and to pay special attention to the issues of internal and external services. It also demanded that the Office for the Prevention of the Corruption undertakes analysis of contracts made between the Office for Informatics and service providers in order to assess the possibilities of corruption. The Commission proposed to the Tax Administration to carry out inspections at the service providers, those inspections should be referred to the income tax and to the unnecessary costs.
- *Tax Administration of the Republic of Slovenia* - the Commission adopted the decision that the Ministry of finance finds out the number of cases and amounts of returned tax and interest rates (on the basis of Article 95 of the Act on tax procedure) when the Tax Administration returned over paid taxes in 2000, 2001 and 2002. The special attention should be placed on bigger and medium sized tax payers or economic companies and should report on the findings. Apart from that it should present to the Commission the project of integrated tax information system and should report on the document of the Tax Administration from 2000 »Integrated tax information system – development programme, September 2000«. The Minister of finance should review the design and operation of the internal controls at the Tax Administration in line with the Public Finance Act and report on it. The Ministry of interior should review tax procedures referred to the offsets of receivables and liabilities, specifically the returns of over paid tax. The review should include material returns for 2000, 2001 and 2002, the Ministry of interior should report thereof to the Commission.

In the discussions of the Commission the representatives of the Court of Audit are present, but often they must defend the findings and opinions which are presented in the audit reports even though they cannot be a subject of a dispute (as in the Court of Audit Act). Sometimes it looks like the audit reports are questionable, that the Court of Audit did not correctly and completely analyse the actual circumstances and did not issue opinion which is based on reasonable judgement.

Consulting the Users of Public Funds

One of the important tasks, beside disclosing and reporting, of the Court of Audit is to consult the users of public funds on regularity and performance of business operations. The Court of Audit implements the consulting function on the basis of its findings derived from audits and on professional expertise. Consulting is related mainly to the assessments on the regularity and efficiency of the use of public funds.

In line with the Rules of Procedure the Court of Audit provides consulting in three levels. The Members, the Supreme State Auditors can provide advice to the users of public funds on public finance issues, if the advice is based on previous audits. Nevertheless they can provide their own professional opinion about public finance issues with an explanation that the Court of Audit did not define the opinion and that it is not binding for the Court of Audit. An opinion about public finance issues can be made by the Senate, if the Court of Audit has not yet adopted a decision on that issue. The opinion of the Senate is binding for the auditors of the Court of Audit when implementing audits.

The Court of Audit can advise to the auditees during the audit implementation, i.e. during field work and at clearance meetings, to which the auditees are invited after the draft audit report is issued. At the clearance meeting the auditee's representatives and the auditors agree upon the findings referred to the performance or regularity of business operation as presented in the draft audit report.

Consulting is not explaining or assessing already published audit reports, unless for the purposes of scientific, professional, research and pedagogic work. Consulting is important because it can have an impact on the improvement of public funds use in future.

In 2003 the members and supreme state auditors of the Court of Audit provided advice to the public funds users on:

- payments related to costs of work (basic salary, bonuses, performance bonus), reimbursement of costs (business trips, ...), anniversary bonus, holiday bonus, overtime work,
- reimbursement of costs referred to the election campaigns and financing political parties,
- paying different state aids,
- procedures of public procurement in case of communal infrastructure and procedures of public procurement for small value items,
- business operations of municipalities (supervisory boards, making contracts, ...),
- other issues (recording financial and accounting documentation in electronic version, content of the rules on internal audit, implementation of internal audit...).

The Senate issued opinions on the following three public finance issues:

- implementation of investments in municipal infrastructure,
- allocation and use of income surplus in public institutions,
- bonuses for judges.

Developmental Initiative of the Court of Audit

Twinning Project

In 2003 a new Twinning project was launched at the Court of Audit. The Project involved the cooperation of the Court of Audit and distinguished audit institutions of the United Kingdom, Denmark, Spain and the Audit Commission of the United Kingdom. The Project consisted of four components which are referred to four areas in order to strengthen the Slovene Court of Audit: results based budgeting, auditing of municipalities, transfers from the EU budget and detecting fraud and corruption. The outcomes of the project are:

Results Based Budget Audits

Within this component the Court of Audit co-operated with the representatives of the National Audit Office of the United Kingdom and prepared several workshops which helped to develop the capacity of the Court to address the concept of the results based budget. The guideline on results based budget audits is the outcome of the clear concept and adaptation to the national circumstances. In developing the guideline the international methodology and national existing arrangements were considered. Those regulations require from the direct and indirect budget users to report on achieved objectives and results.

Auditing business operations of municipalities

An important development on the area of local communities audits was in the preparation of the strategic plan, which proposed different audit approaches with regard to the size of the municipality and assessed risks. The strategic plan anticipated increase in the number of audits implemented per year with the available resources. The strategic plan was tested by a pilot audit which helped to develop audit tools. Those tools can be used in order to implement the audit in less time and of high quality. The preliminary results of the pilot project show that the thorough transformation of the reporting system on the area of the local self-government is needed. In future it will be necessary to develop a unified system of collecting and analysing data for all municipalities each year. A special attention should be put on the development of internal controls system that needs improvement.

Auditing transfers from the EU budget

The budget of the EU shall represent an important part of funds used for programmes and projects in the Member States. This component of the Project was focused on the development of the audit approach which shall address the following issues:

- to review the readiness of the users on the area of agricultural policy, structural and developmental funds and social policy,
- to audit key programmes and projects in order to assure that the EU funds shall be properly used.

The Court of Audit, in co-operation with the National Audit Office of Denmark, reviewed the area and addressed the associated risks. The important conclusion of it was to respect the rules defined by the EU otherwise the funds cannot be obtained from the EU budget. Therefore the audit guidelines were developed which shall be useful for designing audit programmes referred to auditing transfers from the EU budget. In implementing the activities the representatives of the budget users were involved. The close alliance within the area is needed also in the future.

Detecting Fraud and Corruption

Possible occurrence of fraud and corruption can cause the reduction in allocation of public funds. Some areas are especially tangible to fraud and corruption therefore the Twinning Project addressed those areas by developing audit tools which will help the auditors to implement audits efficiently. In co-operation with the representatives of the Supreme Audit Institution of Spain the experts of the Court of Audit developed guidelines on the role of the auditors in the fight against fraud and corruption in the following areas:

- public procurement,
- state aids (grants, subsidies, other transfers),
- collection of tax.

The Twinning Project was completed in February 2004. The completion of the Project marked an end of a chapter in the development of Court's capacities, and it introduced a new period when the above mentioned tools shall be integrated in the audit process. Since auditing is constantly faced with new challenges and risks, it will be necessary to develop other tools which shall address those risks and challenges.

Audit Manual

The Audit manual is one of the key bases for the implementation of audits. Therefore the development of such manual on one hand demands precision and profoundness and on the other hand needs to follow the latest achievements in auditing. The Manual of the Court of Audit, which was completed in 2003, includes detailed instructions for the implementation of the directions presented in the audit guidelines. The Court of Audit achieved its endeavour: high quality and reliability of the audits. In order to constantly improve the audit quality, the Court of Audit will up-date and further develop the manual which must reflect the contemporary audit practice.

The Audit manual is not only the collection of methodological solutions, but also a tool for management of organisational aspects of audit implementation.

In the development of the Audit manual the audit process was examined and the following was highlighted:

- Consistent and sound phases in the audit process
- Harmonised implementation of activities on all levels
- Timely implementation of dependent activities

Consistent phases in the audit process

The audit process must be designed in such a way to enable the activities to be implemented in the predetermined order.

Harmonised implementation of activities on all levels

The length of each activity is defined on the basis of: time needed for the implementation of an audit, type of audit report, complexity of an audit, available resources, type and scope of risks.

Timely implementation of dependent activities

All activities in the audit process must lead to the preparation of the outputs, which are precisely identified. Only well defined outputs of each activity can enable the implementation of dependent activities in the following phases. The manual promotes the standardisation of audit process for regularity audits at the Court of Audit.

The experts of the Court of Audit shall develop tools that shall enable the implementation of the above mentioned objectives. In that process the Court of Audit shall invest its developmental endeavour.

Guidelines

Within the Twinning Project the following draft guidelines were developed: one guideline on results based budget, two guidelines on auditing transfers from the EU budget, and several guidelines on detecting fraud and corruption.

The basic principle of the *Guideline on auditing of the results based budget* is that the designing of programmes and the scope of their budgets is closely linked to the desired objectives and results, which are identified already in the phase of the budget planning. Therefore the budget users need to prepare the financial plans which are based on planned objectives and expected results and are not the consequence of the increase in the budgetary funds. The guideline shows that every budget user must design system which can measure the impacts of changes, i.e. in the values of expenditures per planned objective.

In future the Court of Audit shall face the problem of constructing the system in co-operation with the budget users.

Guidelines on auditing transfers allocated from the EU budget are referred to the area of structural funds and the EGAF. Both guidelines point out the necessity of understanding the operation of the internal controls system, therefore the Court of Audit should develop such audit approach, which can contribute to the operation of the existing systems. In the development of the guidelines the Court of Audit used the following direction: the Court of Audit should contribute to the appropriateness of the system which is to be set up by the bodies responsible for the implementation of the process related to the managing of the EU funds.

Besides the general guideline on detecting fraud and corruption there were other guidelines designed. These guidelines refer to the areas where risks are most common:

- Public procurement,
- State aids (grants, subsidies and other transfers),
- Tax collection (assessing, accounting, control and collection).

Guideline on detecting fraud and corruption in public procurement

The guideline is structured in such a way to consider the natural flow of public procurement process from the beginning to the end. In each phase it focuses on the factors that indicate risk. The purpose of the guideline is to point out the circumstances that could indicate the existence of fraud and corruption. The particularity of the guideline is in examples which support the methodological approach. The auditor should respond to the guideline by assuring quality of audit evidence and respecting procedures on communication about findings.

Guideline on detecting fraud and corruption of the allocation of state aids

The guideline presents the system of allocating state aids. The guideline is linked with the guidelines on auditing transfers allocated from the EU budget. The key conclusion is that the auditor needs to understand the system of allocation of state aids and the internal controls structures. Furthermore, any deviation from the internal controls procedures can be understood as an indication of a risk for fraud and corruption. The guideline also presents aspects of performance of business operation related to the review of achieving the objectives of state aids. The performance audits (achieving objectives) can be an effective mechanism for identifying risks of fraud and corruption.

Guideline on detecting fraud and corruption in the tax collection system

The guideline consists of four parts. The first part includes the problem of detecting fraud and corruption in the tax collection system as implemented by the Tax Administration. The second and the third part present an example of auditing of the Tax Administration and the Tax Office by the Spanish Court of Audit. The fourth part includes general methodological approach to auditing of the Tax Administration, the Spanish experience and the existing national legislation and describes audit approach to auditing of the Tax Administration in Slovenia. The fourth part is a complete presentation of planning the audit of the Tax Administration of the Republic of Slovenia. It pays special attention to the risk factors of possible occurrence of fraud and corruption. Within the project another audit approach was presented; i.e. audit approach of the NAO of the United Kingdom. The area of tax collection is very dynamic, therefore the quality of auditing depends on the knowledge of the auditee's business operation, but that is not limited only on the tax administration. Therefore the guideline shall be amended in future on the basis of experience of the NAO of the United Kingdom.

Intranet

In 2003 the Court of Audit set up system tools for the Intranet of the Court of Audit. The Intranet was named Klek on the basis of the pool carried out at the Court of Audit.

The purpose of the Intranet is to improve and simplify communication and availability of the data and information. The search function enables the employees of the Court to quickly find the data from any data base of the Court of Audit.

The framework of Intranet includes information and news from the area of law, international co-operation of the Court, of personnel department and library. The auditors shall be able to access documents that refer to an audit or a project. Each department has its own page; furthermore each employee can design his own page. Another function of Klek is »discussion« with the purpose to debate specific problems that occur during auditing.

The content of the Intranet can be amended, since the daily use can show the weaknesses and possible improvements.

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Training and Employment

Attending Seminars

In 2003 the employees attended various seminars 115 times, where they improved their skills. Ten auditors attended training which were organised abroad (i.e. 8, 7 per cent of all training in 2003). About one third of auditors of the Court of Audit were involved in training to obtain the title of state auditor. Therefore other types of training were for 9 per cent less than in the previous year.

There were seven employees at the Court of Audit who had contracts for training to obtain a higher grade of education or an academic title.

Training for State Auditor Titles

The most intensive training, which was carried out at the Court of Audit in 2003, was the training for obtaining state auditor titles. The legal basis for the implementation of the training is the Court of Audit Act; Article 22 defines that the Court of Audit issues certificates for state auditor and certified state auditor. The preparations for the implementation of the training started already in 2002, when the President of the Court of Audit adopted the Rules on issuing certificates for state auditor and certified state auditor. The Rules define conditions for obtaining auditor titles, for undertaking examinations and issuing certificates.

The Training programme includes the syllabus and the number of lectures per subject. The Programme was developed on the basis of the consideration that auditors need general, specific, technical and managerial skills. Some of those skills refer to state auditors and to state internal auditors and auditors, therefore the part of the programme is similar to the one for obtaining the titles of auditor and certified auditor which are awarded by the Slovene Institute of Auditors. Also the bases for this part of the training are the study materials prepared by the Slovene Institute of Auditors.

The collective part of the training for the state auditor title includes subjects which promote specific skills necessary for the implementation of external audit work. The study materials comprise legislation and materials prepared by lecturers. The specific part of the training programme includes the subject of auditing that is focused on the audit work of the Court of Audit. Study material is represented by the Manual of the Court of Audit.

In February 2003 the common part of the training for state auditor title began. That part of the training was carried out on the basis of the programme of the Slovene Institute of Auditors. It included four subjects in the total of 56 hours of lectures: accounting, audit, commercial and tax law, quantitative methods. There were 29 auditors of the Court of Audit who participated in the training. The auditors, in the period of four months, attended the lectures, passed exams and implemented audits as their regular work tasks.

In September 2003 the collective part of the training for the state auditor title began. It included subjects which are very important for the state auditors: operation and organisation of the public administration, public accounting, public finance. The lecturers had practical experience what was helpful for the auditors who are constantly faced with problems occurring in public sector. The auditors, in the period from September to December 2003, participated at 61 hours of lectures and passed exams from the above mentioned subjects. The training for state auditor title shall continue in March 2004.

Employment

The personnel plan for 2003 envisaged the total number of 113 employees at the end of 2003. The actual outcome was: 92 per cents of the planned amount. At the beginning of 2003 there were 106 employees at the end of the year there were 103 employees, i.e. for 2 per cents less. The number of employees in management and in support was reduced, the number of auditors increased. Those changes show that personnel policy in 2003 was orientated towards productivity (see Table 12).

Table 12: Composition of staff by function

Area of work	The number of employees on 31. 12. 2002	The number of employees on 31. 12. 2003
Management		
▪ Member	3	3
▪ Supreme State Auditor	6	4
▪ Secretary of the Court	1	1
Total	10	8
Auditing		
▪ Advisers	6	9
▪ Deputy Supreme State Auditor	0	0
▪ Assistant to Supreme State Auditor	20	21
▪ Principal Auditor	16	12
▪ Senior Auditor	25	28
Total	67	70
Support		
▪ Secretary	11	10
▪ Other employees	18	16
Total	29	26
TOTAL	106	104

In 2003 there were 5 candidates who signed an employment contract at the Court of Audit and seven employees who terminated their working relationship (two of them had a contract for limited period of time). In 2003 the staff turnover represented 6,3 per cents. The stabilisation which started in the previous year continued. The staff turnover represented 9 per cents in the years before 2002.

In 2003 the employment policy of the Court of Audit was oriented towards employing new audit staff. In June the Court of Audit published five vacant work posts on the area of auditing: one principal auditor, 3 senior auditors, and one trainee for auditor. The public invitation was successful, since five new employees were accepted. Because the new Act on Public Servants entered into force, the procedure on employment slowed down. By the end of the year only one accepted candidate started working, the other four shall sign contracts in April 2004. Compared to 2002, the number of employees by function did not change much in 2003 (see Table 12).

The educational qualifications of the staff at the Court of Audit did not change much in 2003 if compared to the previous year (see Table 13).

Table 13: Composition of staff at the Court of Audit by educational qualifications

The level of education or an academic title	No. of employees on 31. 12. 2002	No. of employees on 31. 12. 2003
Ph.D.	3	3
M.A.	10	9
University degree	75	76
Higher education	4	3
Secondary education	13	12
Vocational education	1	1
Total	106	104

Once a year there is the review of performance carried out, in order to assess the quality of undertaken work. In accordance with the results of the review, nine employees were promoted, i.e. 8,6 per cent of all employees.

International Co-operation

Co-operation with Other Institutions

In 2003 the co-operation with other institutions proceeded in line with the past developments: the Court of Audit strengthened its co-operation with several Supreme Audit Institutions and the European Court of Auditors. In that way the Court of Audit reached its objective that was set up on the area of the international co-operation.

The most extending co-operation in 2003 was established with the European Court of Auditors. The European Court of Auditors organised several seminars and workshops, furthermore it invited auditors of the SAIs to Luxembourg in order to present the operations of that audit institution. One auditor of the Court of Audit visited the ECA.

Each year there is a meeting of the Presidents of the European SAIs where they discuss the future tasks and co-operation in working groups. This year the meeting was held in Prague and it was organised by the European Court of Auditors. The President and the Deputy President attended the meeting. Before that meeting took place there was a meeting of representatives of the SAIs in Luxembourg, where they agreed the further steps and drafted resolutions. The Advisor to the President for international relations participated at the meeting.

The European Court of Auditors together with the SIGMA each year organises professional seminars for Candidate Countries. The purpose of such seminars is to update and unify activities of the Supreme Audit Institutions in the acceding countries. One of such seminars which was held in Turkey focused on the preparation of the audit manuals. The Second Deputy President attended the seminar.

The Court of Audit in co-operation with the European Court of Auditors and SIGMA organised the workshop on audit sampling in Ljubljana. The programme included contemporary practice on the area of audit sampling and types of sampling in different supreme audit institutions. The lecturers were experts from the Netherlands, Ireland, the European Court of Auditors and the United Kingdom. There were 39 participants from the Supreme Audit Institutions of Bulgaria, Cyprus, Czech Republic, Estonia, Lithuania, Latvia, Croatia, Hungary, Malta, Poland, Romania, Slovakia, Slovenia, Austria and France.



Representatives of SIGMA and ECA



Group work

Slovenia was one of the countries that presented the method of sampling which is used at the Court of Audit. The representative of SIGMA assessed that Slovene Court has a well developed sampling methodology.

The representatives of the European Court of Auditors – a member and three auditors – participated at two working visits in Ljubljana.

In Krakow (Poland) there was a meeting of the Presidents of the Candidate Countries and the representatives of the European Court of Auditors. The President of the Court of Audit also attended the meeting and presented a paper.

The Court of Audit in co-operation with the Austrian Rechnungshof carried out extensive parallel audit of motorway construction. Therefore there were several working meetings held in Austria and Slovenia.

The Court of Audit and the Hungarian Supreme Audit Institution carried out the joint audit on the railway line construction. The auditors of both SAIs met several times in working meetings in Hungary and in Slovenia. After the completion of the audit, in April, the Presidents of the SAIs signed the joint audit report on the construction of the railway line Murska Sobota – Zalačevč. Furthermore, one member of the Hungarian Institute of Audit arrived to Ljubljana on a one-day study tour.

Cyprus is one of the countries that has a very well developed auditing of public procurement. Therefore the Court of Audit organised the seminar on audit of public procurement which was managed by the Audit Office of Cyprus. At the same time the Supreme State Auditor of the SAI Cyprus officially visited the Slovene Court of Audit. In April a three-member delegation of the Court of Audit visited the SAI Cyprus.

The SAI of Norway developed its IT programme PROSIT as a support for auditing, which was presented to the President of the Court of Audit and two of his Advisors. The programme was translated into English and was presented to the Court of Audit in Ljubljana, where an official meeting of the Auditor General and his delegation was held.



Presidents of the SAIs of Norway and Slovenia (B. Mørk Eidem and dr. Antončič)



Representatives of the SAIs of Norway and Slovenia

The largest project which was launched in 2003 was the Twinning Project. The Project was carried out in co-operation with the Supreme Audit Institutions of the United Kingdom, Denmark, Spain and the Audit Commission of the United Kingdom.

The Court of Audit has developed good relationship with the National Audit Office of the United Kingdom, the Pre-Accession Advisor from the NAO of the United Kingdom has been managing the Twinning Project for the third year and in that way assisting the Court. Apart from that one auditor from the Court of Audit participated in a three-week training which was organised by the NAO.

The co-operation with the NAO of Denmark was strengthened in 2003, i.e. the NAO is involved in the implementation of the Twinning Project. The auditors from the NAO presented their experience on the area of auditing transfers from the EU budget. The Advisor to the second deputy president and Assistant to Supreme State Auditor undertook a study visit to Denmark. Furthermore the President of the Court of Audit and his Advisor visited the NAO of Denmark.

The Spanish Court of Audit was also one of the twinning partners therefore several activities were held in Slovenia. The auditors from Spain presented their experience referred to detecting fraud and corruption. Two auditors of the Slovene Court went on a study visit to Spain.

The Court of Audit of the Republic of Slovenia strengthened its co-operation with the SAI of Bulgaria: in May the President, Advisor to the president and the Supreme State Auditor visited the SAI of Bulgaria; in October the President of the SAI Bulgaria visited Slovenia.

Delegation of the SAI of Bulgaria



President of the SAI of Bulgaria, dr. Nikolov



The Slovak Supreme Audit Institution celebrated its anniversary, therefore it prepared a meeting which was attended by the President and his Deputy. The President of the Court of Audit was a spokesman at the meeting.

The Court of Audit of Germany renewed the work of the VAT group. Their purpose is to organise initiative in the fight against fraud on the area of VAT. The meeting was attended by the Advisor to President who prepared a report on the work implemented by the Court of Audit.

The delegation of the European Commission and SIGMA arrived to two visits in Slovenia to assess the preparations before the accession and prepared the progress report.

Other Forms of International Co-operation

Among international gatherings organised by the international audit organisations – INTOSAI, EUROSAI – there were also meetings of the International Board of Auditors for NATO. The IBA included in its meetings also the future members of NATO. The Advisor to the President attended two meetings in the Brussels. The purpose of the meetings was to inform the SAIs about their roles and responsibilities as members of the IBA.

The International Organisation of Supreme Audit Institutions (INTOSAI) each year organises several seminars in order to inform the countries about the latest methods and guides of state auditing. The INTOSAI developmental initiative (IDI) organised a workshop on financial audit in Cyprus. From the Court of Audit three auditors and Advisor to the Deputy President attended the workshop. The Advisor was also one of the lecturers. In Wien there was a seminar on the role of the SAIs in auditing use of funds on the area of education. One auditor from the Court, who attended, presented the findings of the audits referred to that area.

The Court of Audit is a member of the Permanent board of the INTOSAI for IT. The working meeting which was held in Norway was attended by the Advisor to the President who undertook the role of the leader of the sub-group for risk analysis in the projects of e-services.

In June the Second Deputy President participated the INTOSAI meeting of the working group on privatisation audits which was in Prague. The Deputy President presented the privatisation audits in Slovenia.

The EUROSAI organised a seminar about auditing hospitals on regional level. The seminar was held in Ruen in France. One auditor from the Court participated. In June there was a seminar on auditing health care services organised by EUROSAI in Denmark. Two auditors from the Slovene Court participated in the seminar.

In Rome there was a meeting of EUROSAI Governing Board, which dealt with the future activities of EUROSAI members. The meeting was attended by the President and the Second Deputy President of the Court.

The working meeting of the EUROSAI working group on IT was attended by the Advisor of the President of the Court of Audit. He prepared a paper and was nominated as a member of the narrow working group: together with the auditors from the Spanish Court of Audit they were assigned to prepare a manual on self-assessment, in autumn they had a working meeting in Spain.

The area of fraud and corruption was discussed several times in 2003: the Advisor to the Second Deputy President attended the seminar on fraud and money laundry in Prague. It was focused on the role of the audit institutions in efficient detecting those irregularities. Two representatives of the Court of Audit co-operated with the GRECO, who reviewed the capacities of the Slovene administration in detecting fraud and corruption.

The European Commission organised a meeting of the representatives of the SAIs which was attended by the Advisor of the President of the Court of Audit. The subjects of the meeting were: risk management in the audit institution and key challenges of the internal audit.

In May there was a meeting of the Vysegrad Group in Czech Republic. Slovenia who was represented by the President and the First Deputy President of the Court of Audit was the guest of honour.

Appendix 1

Audit Activities

Each audit report and post-audit report is a result of audit activities, which follow each other in a prescribed order.

Outline planning

The first step of the audit process is the outline audit planning. The purpose of the outline planning is to get appropriate professional base for the selection of audits which shall be included in the Annual programme. When preparing audit proposals and adopting the Annual programme, the Court of Audit must consider its legal engagements, audit priorities and guides of the strategic plan of the Court of Audit. In the phase of the outline planning there are two important documents created:

Figure 10: Outline planning results in two documents



The adopted annual programme is the base for the beginning of the detailed audit planning. Before the commencement of each audit, there is a very demanding phase of detailed planning. In order to complete the process effectively, the auditors must gather appropriate data from the auditees. The users of public funds (auditees) must therefore, submit all relevant documents, i.e. bookkeeping records, data and other documentation. The auditors carry out other investigations which are necessary for planning.

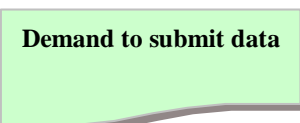
Auditors want to establish simulative working environment with the auditee, since the end result is for the auditee and auditor the same, namely to manage public funds efficiently and with responsibility. One of the means for creating the working environment is also in the provision on delivery of data in 8 days after the demand is received by the auditee. Namely, the auditor must precisely define the data needed, must agree with the auditee on the date of delivery of the data or the implementation of the demand.

After the auditors receive the data, they review whether the submitted data correspond to the demand which was delivered to the auditee. It is important to stress that the auditors usually demand different types of data from the auditee during the audit. The auditee must deliver the data with due care. The auditors expect that the auditee shall fulfil the demands and shall co-operate, but this should not be abused.

If the responsible persons of the auditee do not co-operate with the auditors, the Court of Audit can use the prescribed sanctions or can decide not to issue an audit opinion, what can be a reason for discharging of the responsible person.

After the demand to submit data is prepared, the outline planning is completed and the phase of detailed planning is commenced.

Figure 11: The final document in outline planning

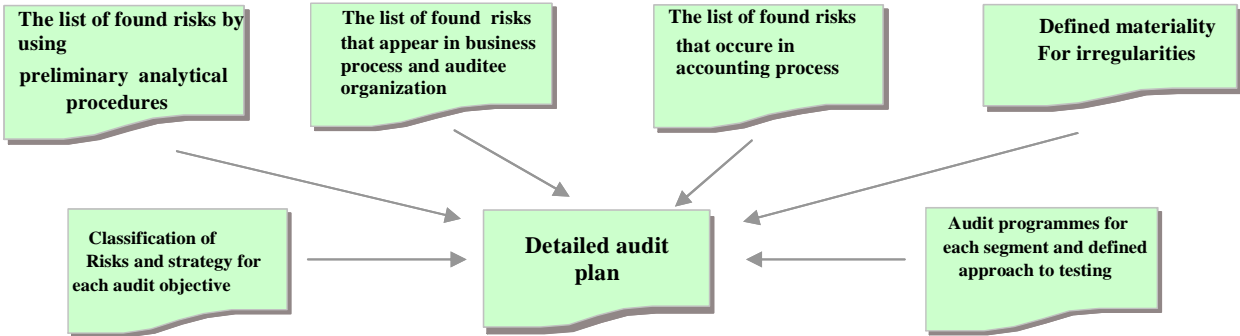


Detailed planning

During the detailed audit planning the auditor implements several activities prescribed by international standards of auditing, mainly the INTOSAI and the International auditing standards. While designing the detailed audit plan the auditors consider audit guidelines and audit manuals, which represent the operationalisation of the standards and are examples of good practice at the supreme audit institutions. In the phase of the detailed planning the auditors analyse risks for irregularities occurring in the business operations of the auditee; and errors in the financial statements. The risk analysis is undertaken by using different methods, mainly by preliminary analytical procedures, understanding the business operations and the control environment of the auditee and understanding the accounting process. In the process of the detailed planning the criteria for assessment of the found irregularities and errors are defined on the basis of the materiality. The materiality includes quantitative and qualitative aspect; therefore the auditors must define all of the aspects in order to be able to assess the irregularities and errors. On the basis of the undertaken risk analysis the auditors identify appropriate auditing strategy. The auditors decide whether to rely on the internal controls of the auditee or whether to test the regularity of the data and in which scope. Apart from the audit scope the auditors define the subject of the tests for each specific audit objective, which must be documented in audit programmes. The detailed audit planning is completed by preparation of the detailed audit plan, which must contain all the above. The holder of the detailed planning is the Supreme State Auditor, who prepares the guides on the implementation. The assistants to the Supreme State Auditors are responsible for the implementation of the detailed audit plan. They manage teams of auditors; the sizes of teams depend on the audit scope, available time, difficulty of the subject. Each team member must implement activities which are defined in advance by the assistant to the Supreme State Auditor. The assistant to the Supreme State Auditor is responsible for the preparation of the draft detailed audit plan. The approved detailed audit plan is the base for the commencement of auditing which starts by issuing the decree on audit implementation.

The detailed audit planning leads to the findings which must be documented in the detailed audit plan.

Figure 12: Documents in the detailed audit planning



In the planning phase the auditors use on average 30 per cents of the available audit time which is planned for the audit implementation.

Gathering Audit Evidence

During the field work the auditors implement what was planned and documented in the detailed audit plan. If the auditors find out that the controls are reliable, they can be more efficient by reducing the scope of their work (scope of testing). That audit approach is possible if the management of the auditee designed efficient system of internal controls. If the auditors find out that the controls are not reliable, they must prepare the plan for testing and identify an auditing strategy. After the controls are tested, the auditors have information on weaknesses of the controls and can suggest to the auditee how to improve the controls or remedy the weaknesses. The field work continues by testing data in order to collect sufficient, reliable and appropriate audit evidence considering the set audit objectives. The audit evidence must be documented as working papers which support the audit findings presented in the audit report. The auditors must assess the findings and define audit opinion.

Figure 13: Documents in the phase of field work

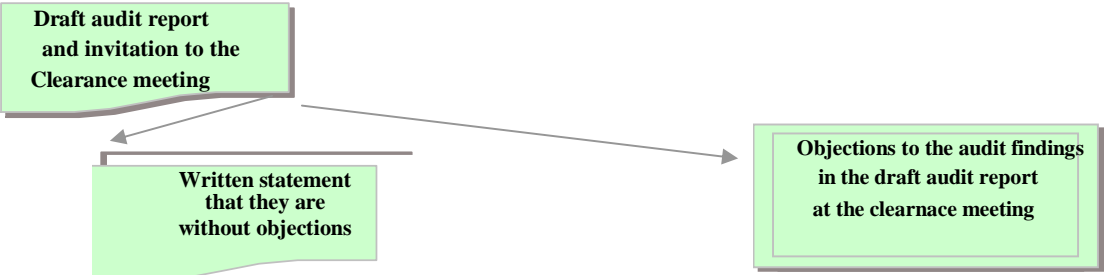


The auditors use on average 50 per cents of the available audit time which is planned for the audit implementation.

Reporting

The process of audit reporting is commenced already in the phase of collecting audit evidence, since already in that phase the audit evidence must be systematically recorded in the working papers. On the basis of audit findings, which are supported by the sufficient, appropriate and reliable audit evidence, the audit manager prepares draft audit report. The draft audit report includes the audit findings and an opinion on business operation of the auditee.

Figure 14: A document and activities of the first reporting phase



The Draft audit report is sent to the auditee together with the invitation to the clearance meeting. At the clearance meeting the auditee can object to the audit findings which are presented in the Draft audit report or can additionally explain the audit findings.

If the auditee objects to the audit findings, the authorised Supreme State Auditor reviews them and assesses the sufficiency, appropriateness and reliability of the evidence which support the auditee’s objections.

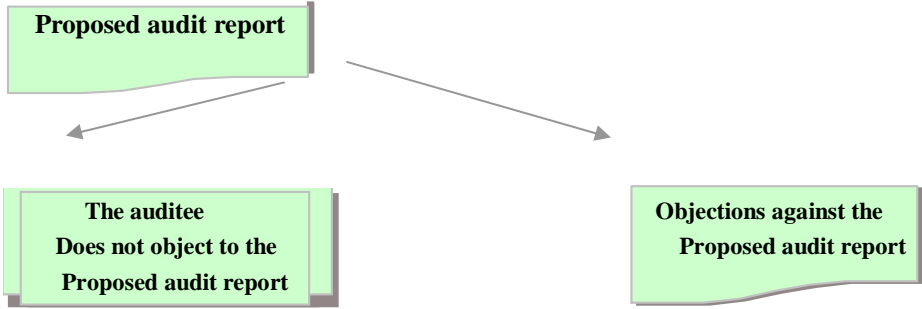
If the Supreme State Auditor during the process of assessment finds out that the objection is justified, the finding in question is excluded from the text when the Proposed audit report is designed.

After the assessment of the objections to the audit findings, the Supreme State Auditor prepares the Proposed audit report.

The users of public funds and their responsible people can file an objection to the audit findings in the Proposed audit report.

The audit finding is disputable if an auditee or its responsible person files an objection to it. The Senate of the Court of Audit reviews the disputable audit findings. The Senate can either exclude the finding from the audit report or can decide to keep the disputable finding in the audit report, unchanged or altered.

Figure 15: The document and activities in the second reporting phase



The Senate decides to exclude the disputable audit finding from the audit report only if the objection of the auditee or its responsible person is argued. The objection to the audit finding is considered argued if the Senate decides that there are sufficient, appropriate and reliable audit evidence submitted.

If the disputable audit finding is discussed at the Senate, their judgement is expressed in the audit report as a resolution. If there is no disputable audit finding, the issued proposed audit report becomes the base for the final audit report of the Court of Audit. The final audit report is issued after the editorial review.

If the auditee submits the objection to the Proposed audit report, the Court of Audit delivers to the auditee the audit report and the answer to the objection. It is expected that the auditee thoroughly reviews the answer to the objection. Only in that way the auditee will be able to appropriately react to the possible demands to implement remedial measures.

Figure 16: The documents and activities of the final phase of reporting

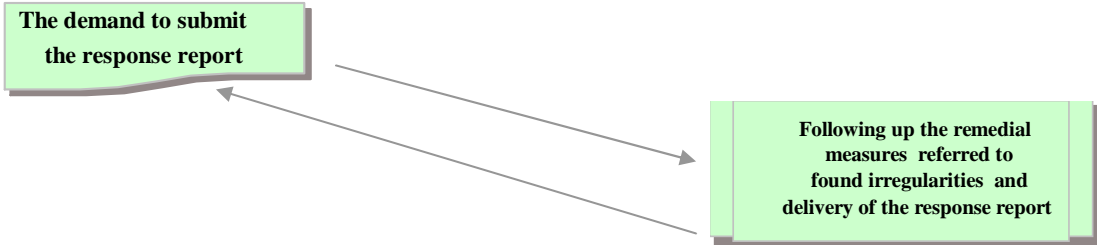


In the reporting phase the auditors use on average 20 per cents of the available audit time which is planned for the audit implementation.

Post-audit procedure

If the audit report presents irregularities and inefficiencies and there is no evidence that they have been remedied during the audit procedure, the auditee is demanded to submit the response report with the prescribed content and form.

Figure 17: The documents and activities after the audit report is issued



In eight days after the response report is received, the authorised Supreme State Auditor prepares the assessment of the credibility of the response report. The assessment is approved by the Deputy President and submitted to the Auditor General. The authorised Supreme State Auditor must review the following:

- Whether the auditee adopted the remedial measures for all irregularities, inefficiencies,
- Whether all remedial measures are documented,
- Whether the statements on remedial measures are truthful.

The Auditor General on the basis of the assessment of the credibility of the response report decides whether to introduce the audit of the response report or not.

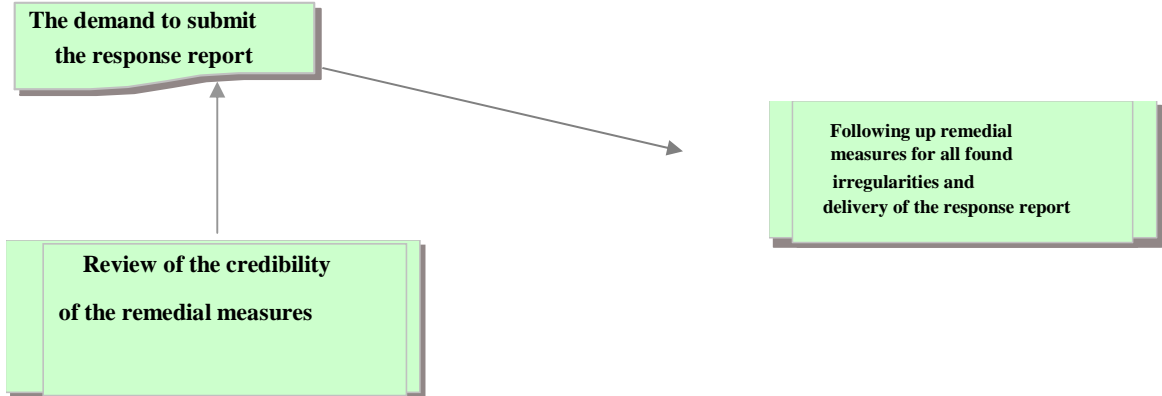
The audit of the response report is conducted in the same manner as other audits, it includes collection of the sufficient, appropriate and reliable audit evidence for the evaluation of the appropriateness of the remedial measures, which were adopted by the auditee. The process of reporting in the post audit procedure is completed by issuing the post-audit report.

The key elements of the post-audit reports are

- The assessment if the adopted remedial measures are satisfactory,
- To express an opinion on the remedial measures
- The resolution whether there is violation or severe violation of operational efficiency.

The report is issued to the audited user of public funds. If the auditee did not adopt appropriate remedial measures, the call for undertaking action is issued to the authorised body. The authorised body is selected by the Auditor General, because it can act against the user of public funds who committed violations or severe violations of the operational efficiency. The body should discharge the responsible person of the user of public funds.

Figure 18: The final document and activities in the audit process



In the post-audit procedure the auditors use on average 10 per cents of the available audit time which is planned for the audit implementation.

Appendix 2

Use of the monetary unit sampling

The auditors choose the appropriate type of selecting transactions for testing, which may include all items, selected items or may use audit sampling. When sampling, the auditors need to address the following issues: how many items to test, which items to select and what conclusions can be drawn. Sampling can be either statistical or non-statistical. The difference between them is that the sample in statistical sampling is selected randomly and the results are assessed on the basis of the probability. The risk of error is precisely defined. The non-statistical sampling assessments are not supported by the theory, therefore extrapolation cannot be used.

First of all the population must be defined. The population is composed of many elements which are subjects to testing. The definition of the population is very important. When planning, the known information on population must be used. In that way the sample plan is improved. On the basis of that information the stratification of the population to the sub-population is made.

In the audit of the state operations the samples were selected on the basis of the data on expenditures for each ministry, which were divided into strata: pay and other expenditures for employees, other expenditures and current and capital transfers. When the population is defined, the sample can be identified. In each stratum the payments are selected independently.

The size of the sample is influenced by the materiality rate and detect risk. The materiality rate $P(X)$ equals the percentage of the value of the audit subject which was defined (in the state budget audit it is the percentage of expenditure).

The detect risk is one of the elements of the audit risk. The Court of Audit allows the audit risk to be 5 per cents. The accepted detect risk is defined on the basis of accepted audit risk and the found control risk and inherent risk, which are defined on the basis of findings obtained when reviewing business operations of the auditee, on the basis of the assessment of internal controls system and its operation.

The audit of the business operations of the state was implemented by monetary unit sampling. It is a statistical sampling method. Each monetary unit has the same possibility to be selected. The sampling item is therefore not the transaction but monetary unit. When monetary unit is selected it is not audited individually but as a part of the transaction. This method allows each transaction to be selected according to the size, therefore the higher value transactions are more likely to appear in a sample.

The number of items in the sample is defined:

$$n = X * A_3 / (\text{materiality} - \text{expected error})$$

X is the population value, A_3 the level of confidence in detecting. The value in the denominator is named planned precision. The expected error is assessed by auditors. The average sampling interval (ASI) is defined in the following way:

$$ASI = X / n,$$

X is the value of each stratum. All payments above the ASI are excluded from the population and are audited separately, the rest of them are included in the sample.

Each payment from the sample is audited, by doing so the auditors find possible irregularities. The relative error of each payment is called tainting. The found taints are extrapolated to the stratum.

The auditors calculate the most probable sum of irregularities as a product of average sampling interval and the sum of tainting; the upper limit for the sum of irregularities is the sum of most likely error and outturn precision; the lower limit for sum of irregularities is the difference between the most likely error and additional precision.

The sums of the irregularities are turned into the levels of irregularities (expressed in percents) and are considered when designing audit opinions. If the upper error limit is below the materiality rate, the *positive*

opinion is expressed. If the lower error limit is above the materiality rate, the *negative opinion* is expressed. If the upper error limit is just above the materiality rate, the lower error limit just below the materiality rate, the *opinion with reservations* is expressed.