



# ANNUAL REPORT

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## INTRODUCTION

The new Court of Audit Act came into effect last year. Therefore 2001 was a year of changes for the Court. The changes were introduced to bring the work of the Court of Audit into line with the new law. We transformed the organisation of the Court, adopted new rules of procedure in agreement with the National Assembly, introduced new rules into the audit procedures and adopted new acts on the operations of the Court of Audit. The Court of Audit now has three cabinets, six audit departments and a support services department. Each audit department has its own field of audit. In defining the audit fields for the individual audit departments we took account of the obligations imposed on the Court of Audit by the new law. In other words the new departmental structure supports, in organisational terms, the implementation of the audit obligations of the Court of Audit.

As 2001 was a year of changes it was also a year of transition. However the transition from one method of work to another has not meant a reduction in our audit activities. In fact last year we issued more audit reports than in any previous year. Such transitional arrangements will soon no longer be needed as only a few audits remain to be completed under the old law.

It is still too early to make a comprehensive assessment of the effects of the new law, but we can make an assessment of the first year of activity under the new legislation. Some positive impacts of the new law are already apparent. These include:

- the audit departments are better managed;
- the professional requirements in the performance of the audits are becoming stricter;
- the audit procedures are becoming shorter;
- there are fewer appeals and objections from auditees than previously;
- all the signs are that the post-audit procedures will develop into an important supplement to the audit processes.

The post-audit procedure is one of the important new features introduced by the new law. It begins with a request from the Court of Audit to a budget fund user to submit a *response report*. In the response report the audited budget fund user must demonstrate the corrective measures taken. In other words those measures introduced in order to address the irregularities or inefficiencies identified in its past operations, or in order to reduce the risk of specific irregularities or inefficiencies occurring in its future operations. We have already received a number of response reports. I believe the first response reports demonstrate that the introduction of the post-audit procedure is a beneficial supplement to the audit process.

However the enactment of the new Court of Audit Act was not the only thing that happened in 2001. It was also a year in which, in addition to the Annual Programme of Audits, which is our basic task, we also carried out a *twinning* project. This project is financed by Phare funds and backed by close co-operation with the supreme audit institution of the United Kingdom. This is a development project aimed at improving the

audit methods of the Court of Audit. The implementation of the twinning project and the enforcement of the new law are mutually supportive and so we can say that *twinning* and the new law are acting synergistically to improve the professionalism and effectiveness of the work of the Court of Audit.

A handwritten signature in black ink, appearing to read 'Antončič', written in a cursive style.

Dr Vojko A. Antončič,  
President of the Court of Audit

# **FOUNDATIONS FOR THE IMPLEMENTATION OF THE ANNUAL AUDIT PROGRAMME**

## **Objectives of the Court of Audit in 2001**

The Court of Audit of the Republic of Slovenia endeavours to apply the highest ethical and professional standards to the demanding tasks of auditing public spending and, by constantly improving and enhancing its work methods, to achieve the objectives that it set at the very beginning. The vision of the Court of Audit is to become a well respected professional institution producing relevant and timely reports establishing whether users of public funds are spending taxpayers' money in accordance with the law, economically, efficiently and effectively and in line with the purpose for which it was allocated to them.

In 2001 we set ourselves the following objectives:

- to perform the audits imposed on the Court of Audit by law as mandatory audits in a timely and quality fashion,
- to perform audits of the regularity of the operations of nearly all of the direct users of the state budget,
- to perform ten audits of the efficiency of the operations of budget fund users,
- to perform a suitable number of audits of the operations of municipalities,
- to introduce a number of audits that the Court of Audit has not previously performed,
- to strengthen co-operation with the European Court of Auditors,
- to further consolidate our position in the international professional environment,
- to increase the training of auditors for carrying out demanding audit tasks,
- to prepare the foundations for the production of an audit manual.

On the basis of these outlined objectives we prepared a detailed work plan in which we included the audits that we have a statutory obligation to perform and those that we perform at our own discretion. In each audit we also determined the objectives depending on the type of audit.

One of the main strategies for achieving the objectives was co-operation with the supreme audit institution of the United Kingdom, the National Audit Office, with which we signed an agreement on close co-operation (twinning project), the goal of which is to develop the auditing of public spending in Slovenia.

## **The auditing environment**

Major changes are taking place in the public spending audit environment which we too are responding to at the Court of Audit. In certain respects 2001 was a turning point as far as the operations of the Court of Audit are concerned because of the new aspects that were introduced.

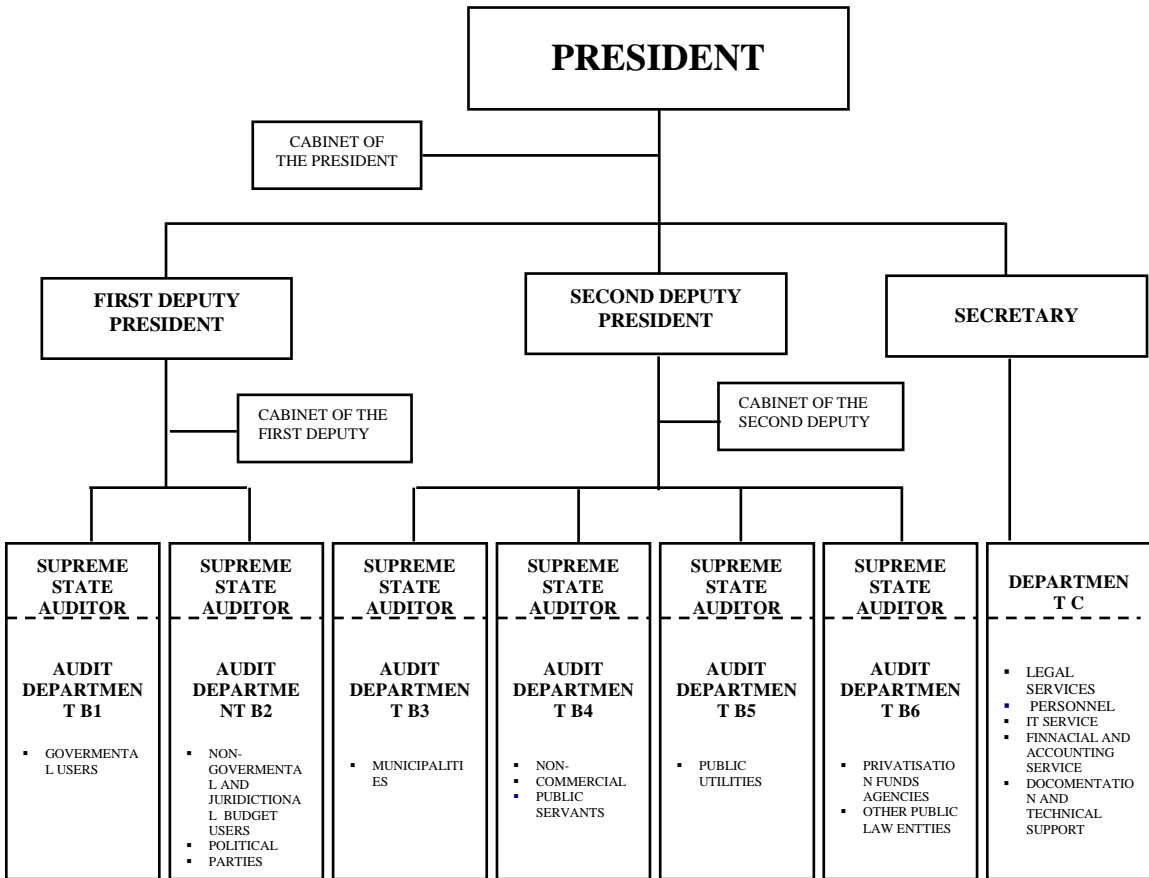
**The new Court of Audit Act**

In February 2001 a new Court of Audit Act was adopted, which caused a significant number of changes in our audit work.

- the Court of Audit's powers have been expanded in terms of the types of audit that it can perform,
- the Court of Audit's jurisdiction in terms of whose operations it can audit has changed,
- there has been an expansion of the obligations of the Court of Audit in terms of the audits that it must perform every year,
- the possibility has been introduced for an investigation before an audit is commenced (pre-audit procedure),
- new aspects have been introduced in the audit and post-audit procedure,
- the president of the Court of Audit has greater powers,
- the number of members and the powers of the senate have been reduced.

The amendments to the Court of Audit Act have brought changes to the organisational set-up at the Court of Audit, which is now as shown in Figure 1.

Figure 1: Organisational chart of the Court of Audit





## **Fulfilment of statutory obligations**

In 2001 we performed audits under both of the Court of Audit Acts: the old law (ZRacS, Uradni list RS, no. 48/94), which applied for all audits commenced under this act, and the law act (ZRacS-1, Uradni list RS, no. 11/01). Our audits fulfilled the requirements of both of these laws and of certain other laws.

From both the Court of Audit Acts we took account of the following provisions:

- fourth paragraph of Article 21 of the ZRacS or point 1 of the fourth paragraph of Article 25 of the ZRacS-1: Financial statements of the state budget and the regularity of the implementation of the state budget,
- fourth paragraph of Article 21 of the ZRacS or point 2 of the fourth paragraph of Article 25 of the ZRacS-1: Financial statements and the regularity of the operations of the Health Insurance Institute of Slovenia,
- fourth paragraph of Article 21 of the ZRacS or point 3 of the fourth paragraph of Article 25 of the ZRacS-1: Financial statements and the regularity of the operations of the Pension and Disability Insurance Institute of Slovenia,
- fourth paragraph of Article 21 of the ZRacS: Financial statements of the Employment Service of Slovenia,
- fourth paragraph of Article 21 of the ZRacS: Financial statements of the funds established by the Republic of Slovenia,
- point 4 of the fourth paragraph of Article 25 of the ZRacS-1: Operations of city and other municipalities,
- point 5 of the fourth paragraph of Article 25 of the ZRacS-1: Operations of commercial public service providers,
- point 6 of the fourth paragraph of Article 25 of the ZRacS-1: Operations of non-commercial public service providers,

and from other laws:

- Article 17 of the Act Regulating the Slovenian Development Corporation and the Company Restructuring Programme: Regularity of the operations of the Slovenian Development Corporation, d.d. Ljubljana,
- Article 24a of the Election Campaigns Act: Reports of the organisers of election campaigns for election of deputies to the National Assembly,
- Article 24 of the Political Parties Act: Review of the annual reports on the operations of parties.

## **Responding to proposals and initiatives**

The new law also contains a new provision on proposals for the implementation of audits (Article 25): in determining the audits which it will carry out in an individual calendar year the Court of Audit deliberates proposals from deputies and working bodies of the National Assembly, the government, ministries and local authority bodies. It must act on at least five proposals from the National Assembly, of which at least two proposals must be from opposition deputies and at least two proposals from the working bodies of the

National Assembly. At its own discretion the Court of Audit also acts on proposals from civil society organisations and individuals, including those that can be found in articles and other contributions in the media.

The Court of Audit does respond to the proposals and initiatives it receives and every year has commenced a number of audits on the basis of these initiatives. In 2000 we received 83 initiatives, and 86 in 2001. In 2000 most of the initiatives were sent by individuals (42), followed by municipalities (15), ministries and government offices (eight) and the National Assembly and individuals united in various groups one each. In 2001 we carried out 14 audits on the basis of these initiatives, or using these initiatives as additional justification.

On the basis of proposals from the working bodies of the National Assembly from previous years we completed in 2001 an audit of the regularity of the operations of RTV Slovenia in 1998 and 1999. And in 2000 we received a proposal from the National Assembly budget supervision committee to audit the operations of Dom Lukavci, on the basis of which in 2002 we will carry out an audit of the regularity of its operations.

In 2001 on the basis of a proposal received that year from the National Assembly committee for the economy we began an audit of conformity with regulations and efficiency of operations entitled Implementation of the Commercial Public Service of Buying and Selling Electricity and Transport Channels from 1998 to 2001 by the Elektro Slovenije d.o.o. public company.

### **Use of information technology**

The biggest number of changes occurred in the area of information technology, and these changes required the audit methods and techniques to be adapted and a more widespread use of software tools. As far as obtaining evidence on which to base an opinion is concerned this technology has enabled us to make increasing use of a systemic approach to testing the functioning of processes in a computer-supported environment. By doing this we have increased the scope of information gathering for auditing purposes in electronic form, as an increasing number of our auditees manage and store financial data with the aid of modern computer equipment. We have supported the auditing procedures for analysing and sampling the data acquired using the WinIdea software, which allows us to carry out a more extensive analysis of the regularity of incomes and expenditures, and with the help of external auditors we used information systems to test the availability, safety, integrity and maintenance of the information system of the Pension and Disability Insurance Institute of Slovenia and test its conformity with the regulations governing the functioning of the information system and the database.

Because the WinIdea program is so useful we decided in 2001 to buy 35 licences for the new version of this program, which is called Idea2000. The program improves the efficiency of our work and is very useful as it provides important support in most audits: we can obtain most of the important data for audits in electronic form and analyse it using this program, thereby avoiding time-consuming searching and examining of individual documents.

## THE AUDIT PROGRAMME

### Implementation of the audit programme

We scheduled 120 audits in the work plan for 2001: 73 were unfinished audits carried over to 2001 from previous years and 47 were new audits. In 2001 we completed 90 audits, of which 20 were carried out under the new law. We carried over 30 unfinished audits to 2002: one from 1997, one from 1999, six from 2000 and 22 from 2001. The number of calendar days from the introduction of an audit or from the issuing of the first report until the final report is issued is shown in Table 1.

Table 1: Number of calendar days from the introduction of an audit or from the issuing of the first report until the final report is issued

Activity	Average number of calendar days per report	
	Under ZRacS	Under ZRacS-1
From issue of resolution on introduction of audit to final audit report	343	228
From issue of preliminary report (ZRacS) or draft report (ZRacS-1) to final audit report	102	72

We excluded all 16 reports of the organisers of election campaigns for the National Assembly elections from the data on the progress of audits under the old law because these types of audits are not typical as they take a very short time on average compared to other audits. The average time required to perform this type of audit, from the issuing of the resolution on the introduction of the audit until the final audit report, was 69 calendar days, and from the issuing of the preliminary report to the final audit report was 33 calendar days.

A comparison of the progress of audit activities under the two laws shows that the performance of audits under the new law is more efficient as the audits take less time on average. We expect that with increased training of auditors and more practice at performing audits under the new Court of Audit Act the time required for performing audits will be reduced further.

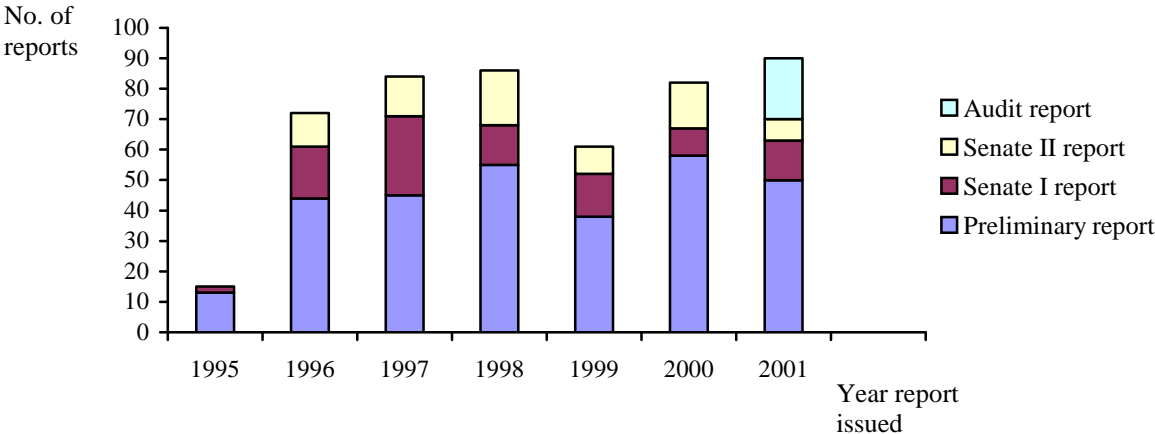
Between 1995 and 2001 we issued a total of 490 final reports, 90 of which were issued in 2001. The number of reports issued each year by type of report is shown in Table 2.

Table 2: Number of final audit reports per year by type of report

Type of report	1995	1996	1997	1998	1999	2000	2001
Audit reports under the ZRacS							
Preliminary reports	13	44	45	55	38	58	50
Senate I reports	2	17	26	13	14	9	13
Senate II reports	0	11	13	18	9	15	7
Audit reports under the ZRacS-1	-	-	-	-	-	-	20
Total – all reports	15	72	84	86	61	82	90

With the enactment of the new Court of Audit Act the changed procedure has also meant a change in the reporting. The previous three types of report (preliminary report, first-instance senate report and second-instance senate report) that were issued and signed by the heads of the audit departments (preliminary report) or the presidents of the senates have been replaced by a single audit report which is always signed by the president. All the audits that were commenced under the previous law proceed in accordance with the procedures laid down in that law. On this basis we completed 70 audits in 2001, while already 20 audit reports were issued pursuant to the new law. The structure of audit reports by type of report is shown in Figure 2.

Figure 2: Structure of audit reports by type of report



In the past few years there has been an increase in preliminary reports as a proportion of the total number of final reports. The smaller number of reports issued in 1999 was a result of the way in which the project to audit the final account of the budget of the Republic of Slovenia for 1998 was carried out, as more than half of the auditors were working on this audit. They tested the regularity of the implementation of the financial plans by 21 direct budget users at all the ministries and certain other state bodies – we compiled a single audit report for all of these users.

**Time required for performing audits**

In 2001 we completed 38 mandatory audits under the previous Court of Audit Act (audit of the state budget, of the Pension and Disability Insurance Institute of Slovenia, of the Employment Office of Slovenia and of the state funds). To perform these audits we used 2,629 auditor-days, which represents 54.7 per cent of the time we spent on performing all the audits completed in 2001. (In the performance of an audit we distinguish between the implementation time and the duration of the audit. We measure the duration in ordinary calendar or working days, and the implementation time in auditor-day units.) In the total amount of time used we did not include the work of the auditors on the project to audit the final account of the budget of the Republic of Slovenia for 1998, which we carried out

in 1999 and 2000 and on which we reported in detail in the 1999 report on the work of the Court of Audit.

We used a total of 381 auditor-days to perform the audits of the municipalities, which is 7.9 per cent of the time we spent on all audits for which we issued an audit report in 2001.

The auditing of the reports of the organisers of election campaigns, which is prescribed as a statutory duty for the Court of Audit in accordance with the Election Campaigns Act, again required a lot of work in 2001. We issued a total of 29 reports on the audit of the operations of organisers of election campaigns for the regular election of deputies to the National Assembly on 15 October 2000 (reports 1217-10/00 to 1217-38/00), and for carrying out these audits we used 534 auditor-days, which is 11.1 per cent of the time we spent on all audits for which we issued an audit report in 2001.

The new Court of Audit Act also allows us to perform audits of the efficiency of operations. The purpose of these audits is to form an opinion as to whether public funds are being used in a cost-effective, efficient and successful manner and whether procedures have been introduced to ensure appropriate monitoring and supervision of the cost-effectiveness, efficiency and success of operations. For the ten audits of the efficiency of operations that were carried out we used a total of 786 auditor-days, or 16.4 per cent per cent of the time we spent on all audits for which we issued an audit report in 2001. These types of audit are generally more extensive than the others and require preliminary studies including analyses of data referring to longer time periods.

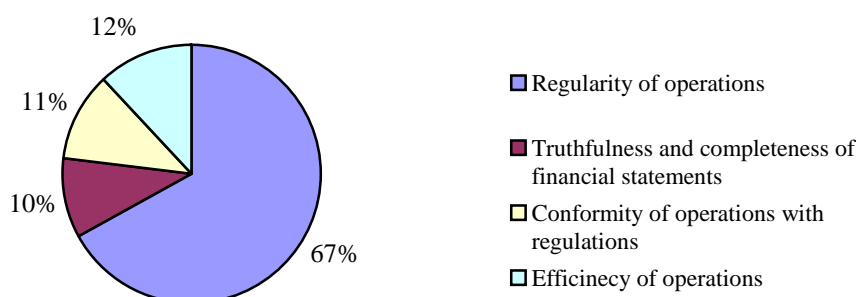
## **Types of audit**

We can categorise the audits according to the objectives we set into four basic groups. The objectives are:

- regularity of operations, including truthfulness and honesty (in the recording of business events) or completeness (in the recording of cash flows) of the financial statements or other operational act and the conformity of the operations with regulations,
- truthfulness and honesty or completeness of financial statements or other operational act,
- conformity of operations with regulations,
- efficiency of operations.

The structure of the audits for which we issued an audit report in 2001 is shown in Figure 3.

Figure 3: Types of audit by objective

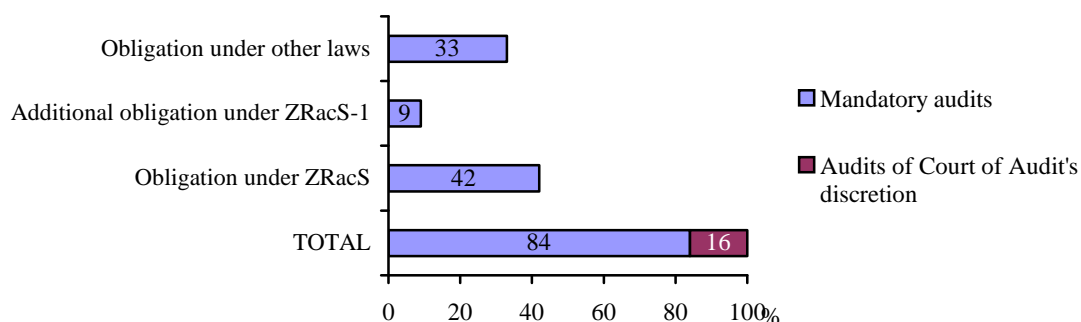


Two-thirds of the 90 audits which we completed in 2001 were audits of the regularity of operations, which are the most common type of audit performed by the Court of Audit. Establishing the regularity of operations was the objective of the audit of the users of the state budget and the organisers of election campaigns. The objectives of the auditing of the municipalities were primarily to test the conformity of operations with the regulations, whereas in the auditing of the funds established by the Republic of Slovenia we mainly examined the financial statements from the point of view of the truthfulness and completeness of the presentation of business events.

In terms of the legal basis on which the audits are performed we can separate the audits into two groups: those that we have to perform as a statutory obligation and those which we can include in the work programme at our own discretion. Out of the total of 90 audits which we completed in 2001 some 76 (84.4 per cent) were mandatory audits and only 14 (15.6 per cent) were audits where the Court of Audit had the opportunity to decide what it should audit. And an analysis of the time spent on these audits also shows that we used more than 80 per cent of our capacity to perform audits laid down as mandatory audits in the Court of Audit Act and other laws.

Figure 4 shows a breakdown of the audits for which we issued an audit report in 2001 in terms of their legal basis.

Figure 4: Types of audit in terms of legal basis



The audits that we performed at our own discretion included audits of operational efficiency and audits of conformity of operations with regulations.

## Opinions issued in audit reports

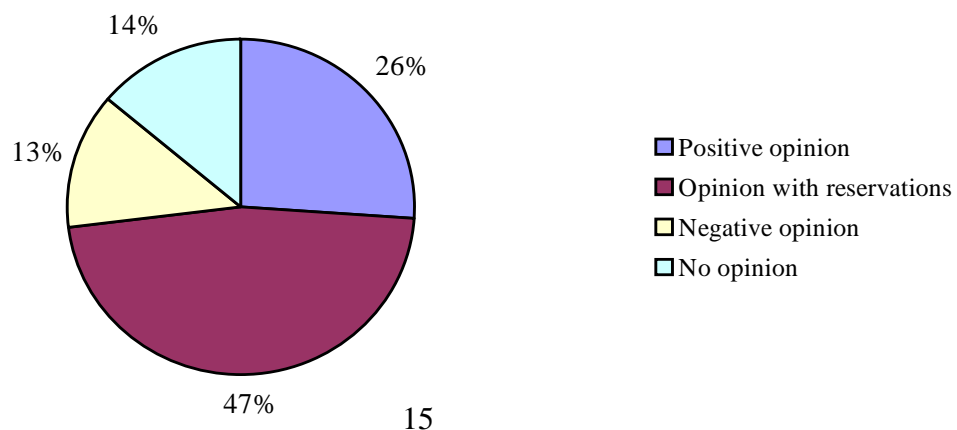
In the audits that we have a statutory duty to perform there are generally two objectives:

- to express an opinion on whether the financial statements are compiled in accordance with the regulations in force, with accounting standards and with other professional requirements, and whether they present a truthful and complete picture of the financial position and operating results of the auditee,
- to express an opinion on the conformity of operations with the regulations governing the financial operations of users of public funds and the activities of the auditee.

In the audit reports which we issued we gave a total of 102 opinions; 45 times we gave a single opinion and 29 times we gave two opinions: an opinion on the truthfulness and completeness of the financial statements or other act that we audited, and a separate opinion on the conformity of the operations of the auditee with the regulations governing its operations. In 16 reports we did not give an opinion. There were various reasons why we did not give an opinion. In 11 cases the objective of the audit was to test operational efficiency, and in these cases an opinion is given descriptively; in one case (report of the organiser of the election campaign of the United Green Party, report no. 1207-26/00-12) the auditee did not submit sufficient documentation and we were unable to gather appropriate and sufficient evidence in order to give an opinion; and in four cases the audits of the conformity of the operations of municipalities with the regulations, following the practice for auditing municipalities that applied at the time, were not concluded with an opinion in standard form but merely with a description of the irregularities uncovered.

The most frequent form of opinion expressed was an opinion with reservations. In the audit reports which we issued in 2001 we issued this type of opinion 56 times, of which 21 times were when we issued two opinions. The structure of the opinions by type is shown in Figure 5.

Figure 5: Type of opinions expressed



In the audit reports issued we expressed a positive opinion a total of 31 times, of which 23 times were in reports containing two opinions, and we expressed a negative opinion 15 times, of which 13 times in reports containing two opinions. The most common reasons for expressing a negative opinion were violations of the law and other regulations governing the financing of public fund users, wages and the awarding of public contracts.

In the audits which we performed on the basis of the fourth paragraph of Article 21 of the previous Court of Audit Act, in the auditing of institutes and funds we tested primarily the truthfulness and honesty of the financial statements.



## **PRESENTATION OF IMPORTANT AUDITS**

### **Auditing of financial statements and the regularity of the implementation of the state budget**

#### **Audit of the final account and the regularity of the implementation of the 1998 state budget**

The report on the audit of the final account of the budget of the Republic of Slovenia for 1998 (report no. 1202-18/99-170) is the result of extensive procedures to test the regularity and completeness of the data in the financial statements of the budget and the conformity of the implementation of the financial plans for 18 groups of budget users. This part of the report combines the results of the audit and the expressing of an opinion in respect of the entire state budget and in respect of the individual direct budget users. Because of the extensive and demanding nature of the project and the lengthy procedures involved in dealing with comments and objections from the auditees in senate meetings we were considerably delayed in issuing the report. The errors which we discovered in the presentation of non-tax incomes and sales proceeds, and the smaller errors in the recording of material costs, grants and service payments, realised guarantees and capital investments meant that we issued an opinion with reservations on the regularity of the final account for 1998.

We also issued an opinion with reservations on the regularity of the implementation of the state budget for this year because in our investigations we discovered irregularities in 25.3 per cent of a total of 4,217 payments examined. In this report we issued a total of 34 opinions to the budget users included in the audit, of which half were positive and 41.6 per cent were opinions with reservations. In one case we were unable to form an opinion because of restrictions on the scope of the investigation, and we issued a negative opinion to the Ministry of Agriculture, Forestry and Food primarily because of the discovery of examples of funds used for purposes other than those for which they were allocated, non-approved payments and irregularities in tender procedures and in the award of public contracts.

#### **Audit of the regularity of the implementation of the financial plans of direct budget users for 1999**

In 2001 we issued nine reports on the audits of the implementation of the financial plans of direct budget users for 1999, which supported the audit of the final account of the state budget. In the reports we issued an opinion with reservations to auditees in 77.8 per cent of cases. Twice we issued a negative opinion on the truthfulness and completeness of financial statements (Ministry of Economic Affairs, Ministry of Small Business and Tourism), and three times we issued a negative opinion on the regularity of the implementation of the financial plans (Ministry of Economic Relations and Development, Ministry of Economic Affairs, Ministry of Foreign Affairs). Among the most frequent errors we established in testing the regularity of the financial statements were incorrect

classification of expenditures, incorrect inclusion of expenditures in the budget year and inaccurate disclosure of the amount of investment transfers. In the implementation of the budget we discovered irregularities particularly in the allocation of subsidies, grants and other transfers, in the award of public contracts and in the financing of projects. We also discovered examples of payment of liabilities before they fall due, irregularities at the Ministry of Economic Affairs in the allocation of sales proceeds for recapitalisation, and at the Ministry of Foreign Affairs cases of budget funds not being used for the purpose for which they were allocated.

### **Audit of the financial statements of the final account of the state budget for 2000**

We were three months late in issuing the report on the audit of the final account of the budget of the Republic of Slovenia for 2000 (report no. 1201-2/01-46) because of difficulties in concluding the audit and the need to clarify disputed findings with the Ministry of Finance. Factors influencing the issuing of an opinion with reservations with regard to the truthfulness and completeness of the final account of the budget of the Republic of Slovenia for 2000 were errors in the balance sheet of incomes and expenditures relating to the disclosure of a surplus of incomes over expenditures of the Bank of Slovenia and interest from the issuing of bonds, the inclusion of sales proceeds and commission which the Slovenian Development Corporation d.d. charged to the state for carrying out commission deals, the inclusion of expenditures among investment spending and investment transfers, incomplete disclosure of incomes and incorrect recording of a loan received by the Ecological Development Fund, d.d. from Phare funds in the financial claims and investments account.

### **Audit of the regularity of the implementation of the state budget for 2000**

In 2001 we included in the work programme a project to audit the implementation of the budget of the Republic of Slovenia for 2000. Within this project we carried out preliminary audits of 21 direct budget users, which included checking the existence and functioning of systems of internal control. We used the results of these audits in planning the audits of the regularity of the implementation of the financial plans of direct budget users for 2000, in which we included 19 direct budget users: 15 ministries, three government offices (the Government Protocol Office, the Office for the Disabled and the Protocol Services Office) and the Office of the Prime Minister. In this project we audited 90.7 per cent of expenditures from the state budget in 2000.

The project was carried out by 31 auditors, who spent 1,725 auditor-days on planning, gathering evidence and reporting. The planning of the audits began at the end of February 2001, and the audit reports were issued in November and December 2001.

Besides performing audits and issuing audit opinions another important goal of the project was the training of auditors, which took place as part of the twinning project at the same time as the audits were being carried out. The objective of each individual audit in the project was to test:

- whether the auditee correctly disclosed expenditures in the final account of the financial plan for 2000, and
- whether the auditee implemented the financial plan for 2000 in accordance with the regulations that must be observed by direct budget users.

In addition, we established in the audit how the ministries were fulfilling their responsibility for the regularity of transfer expenditures. We assessed the ministries' internal control systems and their functioning with regard to the allocation of budget funds to final users.

We performed the audit by testing the individual business events on which the disclosure of expenditures was based. We formulated suitable audit programme to test the regularity of the recording and disclosure of expenditures and programmes to test the conformity of expenditures with regulations. We applied the audit programmes to suitably large samples of expenditures determined according to the Monetary Unit Sampling method. We projected the non-conformity with regulations and the errors in the financial statements to the entire expenditures that were sampled and thus on the basis of statistical calculations determined the upper and lower limits and the most probable sum total of irregularities or errors. We added to the most probable sum total of errors or irregularities the known total of errors or irregularities derived from a 100 per cent checking of part of the expenditures. On this basis in the audit reports we issued opinions to the audited budget users as shown in Table 3.

Table 3: Opinions on the presentation of expenditures and on the implementation of the financial plan for 2000

<b>Budget user</b>	<b>Opinion</b>	
	presentation of expenditures	implementation of financial plan
Ministry of Finance	positive	with reservations
Ministry of the Interior	positive	with reservations
Ministry of Defence	positive	negative
Ministry of Foreign Affairs	negative	with reservations
Ministry of Economic Relations and Development	positive	negative
Ministry of Justice	with reservations	with reservations
Ministry of Education and Sport	positive	with reservations
Ministry of Culture	positive	positive
Ministry of Health	with reservations	with reservations
Ministry of Labour, Family and Social Affairs	positive	positive
Ministry of Economic Activities	with reservations	negative
Ministry of Small Business and Tourism	positive	negative
Ministry of Agriculture, Forestry and Food	negative	negative
Ministry of Transport and Communications	positive	with reservations
Ministry of the Environment and Spatial Planning	positive	with reservations
Office of the Prime Minister	positive	with reservations
Office for the Disabled and Chronically Sick	positive	positive
Protocol Services Office	with reservations	negative
Government Protocol Office	positive	with reservations

On the basis of the audits carried out we estimated that the most probable percentage irregularity (non-conformity with regulations in the implementation of the state budget in 2000) was 1.4 per cent of all budget expenditures, including all the known irregularities and the most probable level of irregularity for all auditees.

The most common irregularities in the implementation of the budget of the Republic of Slovenia for 2000 were:

- Irregular awarding of public contracts – as many as 13 auditees. Budget users still do not follow the prescribed procedures for awarding public contracts (not carrying out tenders as prescribed, procurement by order form or by direct concluding of contracts without examining several bids). In the procedures for commissioning work major shortcomings were established in the tender documentation and in the concluding of contracts. Work not yet carried out is still being paid for.
- In the case of seven auditees the allocation of workers and the calculation of their wages were not in conformity with regulations. Irregularities were established with respect to the allocation of workers who did not meet the necessary conditions. The setting of wage supplements contravened regulations, as did the calculation of allowances.
- Expenditures or payments from the budget in the case of five auditees were not based on a proper (authentic) accounting document, in other words not all of the prescribed conditions for making payments from the budget were met. Contracts were concluded in contravention of regulations, contractually agreed prices were not used in the invoices, and payments were made as advances.
- Irregular procedures in the allocation of subsidies – in the case of four auditees. Transfer funds were not allocated by means of a public tender, or the auditees did not follow the prescribed procedure (exceeding the volume of tender funds, exceeding the upper limit for an individual recipient, failure to observe the tender conditions, applying conditions that were not part of the tender, inadequate tender documentation).
- Funds not used for the purpose for which they were allocated – in the case of three auditees budget funds were not used for the purpose set out in the budget.

### **Auditing the operations of the Slovenian Development Corporation d.d., Ljubljana**

We completed two audits at the Slovenian Development Corporation d.d., Ljubljana in 2001. Every year we carry out an audit of the financial statements pursuant to the Act Regulating the Slovenian Development Corporation d.d., Ljubljana and the Restructuring of the Companies in the Slovenian Development Corporation d.d., Ljubljana. In the audit for 1999 (report no. 1202-5/00-11) we confirmed the truthfulness and honesty of the presentation with a warning that the SDC was incorrectly including among its capital investments the claims that were converted into capital stakes and shares owned by the Republic of Slovenia. The SDC should have recorded in its books a liability to the Republic of Slovenia for the equivalent value of these investments.

In 2001 we continued with the implementation of privatisation audits. Our first audit report of this type (report no. 1202-22/00-25 *on the audit of the sale of stakes in companies in 1998 and 1999 at the Slovenian Development Corporation d.d., Ljubljana*) became final. We reviewed the procedures carried out by the SDC in the sale of stakes in companies acquired in the process of the ownership transformation, restructuring and privatisation of companies or in some other way, and also tested the regularity and rationality of the sale of stakes in two companies. We established that in the period covered by the audit the Slovenian Development Corporation did not have a strategy worked out for the sale of stakes, and that before taking the decision to sell the stakes it did not define in detail the objectives or the methods of the sale. The SDC conducted the sale of shares according to procedures conforming with the regulations in force, but it did not collect bids for the services of appraisers and for legal advice, and did not consistently abide by the statutory criteria in selecting the best bidder for the purchase of stakes. In the audit report we also criticised the SDC for not appropriately documenting all the procedures and not monitoring and analysing the costs of the sale. In our assessment the long-term effects achieved were positive from the point of view of the privatised companies.

### **Auditing the efficiency of the operations of the public prosecutor's offices**

In 2001 we completed an extensive project to audit the efficiency of the operations of public prosecutor's offices. The objective of the audits was to establish the efficiency of the implementation of tasks by the public prosecutor's offices. We performed audits of operational efficiency at the Ministry of Justice (report no. 1205-10/00-12) to determine whether the ministry was ensuring the financial, personnel, technical and other conditions necessary for the functioning of the public prosecutor's offices and carrying out supervision of their activities, and at the public prosecutor's offices: Office of the Public Prosecutor of the Republic of Slovenia (report no. 1205-9/00-9), the higher public prosecutor's offices in Ljubljana (report no. 1205-7/00-10) and in Koper (report no. 1205-8/00-10), and also at the district public prosecutor's offices in Ljubljana (report no. 1205-3/00-11), Maribor (report no. 1205-4/00-10), Celje (report no. 1205-5/00-11) and Novo mesto (report no. 1205-6/00-9). On the basis of the final reports we also compiled a concluding report (report no. 3105-4/97-37), which we sent to all of the auditees and to the National Assembly in July 2001.

The public prosecutor's offices did not have fixed criteria for establishing the efficiency with which their tasks were carried out, and therefore we assessed the efficiency of their work by comparison with the implementation of tasks in 1997, 1998 and 1999 at the same public prosecutor's office, and in certain cases also with a comparison of the implementation of tasks by all public prosecutor's offices in Slovenia.

We used the following criteria:

- the amount of work carried out compared to the reports received, reports in progress, resolved reports, indictments lodged and unresolved reports or cases,

- the number of employees compared to the amount of work done and the average volume of work per prosecutor,
- the time required to resolve an individual case,
- funds used per unit of work carried out – here we counted a report in progress and a resolved report or case as a unit of work carried out.

We assessed the volume of work of the public prosecutor's offices on the basis of analyses of the number of cases received, cases in progress, resolved and unresolved cases with regard to the type of case and by comparison with the figures for 1997, 1998 and 1999. We used the statistical reports on the work of the prosecutor's offices and the overall report on the work of the public prosecutor's offices in 1997, 1998 and 1999.

We reviewed the level of occupancy of positions in the prosecution service, and in particular the ratio between the number of prosecutors and the administrative and technical staff in the courts. We calculated the average volume of work per prosecutor and compared the number of reports received, reports in progress, resolved reports and unresolved reports per prosecutor, the number of indictments lodged per prosecutor and the number of resolved reports per day of the prosecutors' presence at work. In the audit we used these criteria as a standard in order to assess the volume of work accomplished by the prosecutor's offices in the audit period on the same basis. The public prosecutor's offices do not statistically monitor the time taken to resolve cases, and therefore we only checked the time taken to resolve criminal cases using an appropriate sample. In the audits we also assessed the use of funds by the prosecutor's offices and the level of costs per resolved report and per report in progress. We used data from the final accounts and the analytical records of the prosecutor's offices. We included labour costs, material costs and the minor investment costs among the funds used.

We can summarise the results of the audits of the efficiency of the operations of the public prosecutor's offices into the following groups of findings:

- The number of unresolved reports at the audited district public prosecutor's office was greatest in 1998. In 1999 the number of unresolved reports fell by 52.6 per cent at the prosecutor's offices, while at other bodies the number rose by 8.7 per cent. The audited higher public prosecutor's offices in Ljubljana and Koper did not have any unresolved cases even though there was a rise in the number of cases received each year. The number of unresolved cases at the Office of the Public Prosecutor of the Republic of Slovenia was lowest in 1999, both for criminal cases and civil-administrative cases. The number of criminal cases received has been falling each year, while the number of civil-administrative cases has been rising.
- The number of accused adult, juvenile and unknown perpetrators has increased. The biggest increase was in the share of allegations against unknown perpetrators at the district public prosecutor's office in Ljubljana. The number of adult perpetrators of criminal offences dealt with by the audited district public prosecutor's offices increased by 2,594, or 11.3 per cent, in the audit period. Approximately one-third of the perpetrators dealt with by all the district public prosecutor's offices in the Republic of Slovenia were dealt with by the district public prosecutor's office in Ljubljana.
- The increased number of perpetrators also meant an increase in the number of prosecution decisions, rejected reports, demands for investigation, withdrawals from

prosecution and indictments lodged. There was a significant reduction in the number of unresolved reports at the prosecutor's offices and in the number of times public prosecutors participated in hearings. The number of appeals was also greatest in 1999, almost 60 per cent of which were against sentencing decisions. Taking into account guilty verdicts and acquittals the audited district public prosecutor's offices lodged an appeal against every 11th ruling. Approximately 70 per cent of the charges lodged were dealt with by regional courts, which means that minor criminal offences predominated for which the maximum penalty was up to three years in prison. Each year there were also more charges lodged against young offenders. The courts imposed most sentences in 1997 and fewest in 1998.

- On the basis of the audits carried out at the higher public prosecutor's office in Koper and the higher public prosecutor's office in Ljubljana we assessed that with the tasks that they perform the higher public prosecutor's offices do not have a decisive effect on the course of a criminal procedure. But the supervisory inspections under Article 67 of the Public Prosecutor's Offices Act (ZDT) are duplicated because they are carried out not only by the higher public prosecutor's offices but also by the Office of the Public Prosecutor of the Republic of Slovenia. In addition the rationality of organising a duty service at the higher public prosecutor's offices should also be examined because very little effective work was done.
- At the Office of the Public Prosecutor of the Republic of Slovenia the largest number of criminal cases was resolved in 1997, with the number of cases being rejected pointing to the poor quality of the submissions by the parties. The number of civil cases resolved was greatest in 1999. Most of them were resolved upon review, and fewest through the lodging of a request for protection of legality. The Office of the Public Prosecutor of the Republic of Slovenia carried out reviews at the higher and district public prosecutor's offices. Particular attention was paid to the legality and professional regularity of the work. We established that with the reviews an accelerated resolution of cases was achieved at all prosecutor's offices. But according to the Office of the Public Prosecutor there needs to be an improvement in the professionalism of the work, an increase in the activities of the prosecutors to achieve a final resolution of cases and the use of new mechanisms, above all deferred prosecution. We do not believe that supervisory inspections need to be performed by the higher public prosecutor's offices as well as by the Office of the Public Prosecutor of the Republic of Slovenia.
- An amendment to the ZDT on 23 July 1999 established the legal basis for the founding of a group of public prosecutors for special cases whose jurisdiction is to prosecute organised crime. We established that the group is in control of the cases even though the number of alleged perpetrators is increasing.
- The average volume of work per prosecutor at almost all of the audited public prosecutor's office was substantially more in 1999 than in 1997 and 1998. There was an increase in the number of reports resolved per prosecutor and the number of indictments lodged, while the number of unresolved reports per prosecutor fell.
- Better occupancy of job positions had the effect of increasing the volume of work accomplished. The proportion of occupied public prosecutor and assistant public prosecutor positions in the Republic of Slovenia is increasing, while the proportion of occupied professional staff positions fell in 1999 compared with 1997 and 1998.
- The volume of work also influenced the amount of funds used by the prosecutor's offices and the costs per resolved report and report or case in progress in 1997, 1998

and 1999. Labour costs per resolved report at the district public prosecutor's offices in Ljubljana and Celje and at the higher public prosecutor's office in Ljubljana were lower in 1999 than in 1997 because there was an increase in the number of resolved reports. At the district public prosecutor's offices in Maribor and Novo mesto labour costs per resolved report increased in 1999 compared to 1997.

- In terms of the time required to resolve cases we established that the district public prosecutor's offices in Celje, Maribor and Ljubljana on average resolved reports of serious criminal offences within a reasonable period (90 days), and only the district public prosecutor's office in Novo mesto required more time (144 days).
- The higher public prosecutor's office in Koper required on average 3.1 days to resolve a criminal case, and the higher public prosecutor's office in Ljubljana 12 days. On the basis of an examination of 30 files relating to criminal and economic cases we established that the average time required for resolution at the Office of the Public Prosecutor of the Republic of Slovenia from the date of receipt of the initiative to the lodging of a demand for protection of legality was 101.1 days per file. In the case of appeals against second-instance rulings the average duration of the procedure for 13 files from the date of receipt of the file containing the appeal until the opinion or proposal of the public prosecutor was 12.1 days. The Office of the Public Prosecutor of the Republic of Slovenia resolved cases as they were received.

## **Auditing of municipalities**

In 2001 we issued six reports on audits of municipalities. From the reports on audits of operations for the period 1999-2000 (for some of the municipalities the audit covered the period from 1996 to 2000) in the municipalities of Brezovica (report no. 1215-12/00-16), Gorišnica (report no. 1215-13/00-16), Velike Lašče (report no. 1215-14/00-14), Ruše (report no. 1215-6/00-18) and the two city municipalities of Velenje (report no. 1215-7/00-18) and Nova Gorica (report no. 1215-7/00-15) we can summarise the following important findings which are common to the majority of the audited municipalities:

- budget funds were reallocated in contravention of the Financing of Municipalities Act and the conditions and methods laid down in the budget decree,
- payments from the budget exceeded the planned volume of funds,
- the mayor approved payments from the budget that did not have a basis in the budget that was in force,
- investments were not planned in the budget,
- investment works were awarded without public tenders; often completed investments were not recorded among the long-term assets of the municipality,
- bank guarantees were not obtained from contractors for remedying mistakes in the guarantee period,
- liabilities were assumed for purposes not envisaged in the budget, or the use of funds for an envisaged purpose exceeded the planned volume of budget funds,
- borrowing exceeded the statutory limit,
- municipalities borrowed without the approval of the Ministry of Finance and without the financial relations between the newly formed municipalities first being regulated,
- prepayments were not suitably secured,
- individuals were employed without the appropriate education,



- the payment of wages for employees and officials and supplements to their wages was irregular,
- the financing of political parties and councillors proceeded in an unlawful manner,
- the issuing of guarantees exceeded the statutory limit.

## **Auditing the efficiency of operations**

In addition to the project to audit the operational efficiency of the prosecutor's offices and the privatisation audits, in 2001 we issued two further reports from a number of audits of operational efficiency.

The *Customs Administration of the Republic of Slovenia* has frequently been audited within the framework of the state budget because along with the Tax Administration of the Republic of Slovenia it is one of the largest bodies within the Ministry of Finance, which we audit as a whole every year. In 2000 we began a separate audit at the Customs Administration in which we examined in detail the existence and functioning of internal controls and the regularity and efficiency of the operations of the Administration from 1996 to 1999 in respect of the procedures for seizure, transport, storage, sale, destruction and assignment free of charge of confiscated and abandoned customs goods (report no. 1202-4/00-14). By means of inspection and testing we confirmed that the Customs Administration has introduced appropriate controls which function successfully and ensure effective discovery of irregularities in respect of the release of goods into circulation and excise duties. The customs and excise information system satisfactorily supports operations and ensures regular recording of business events and provision of information for decision-making. Less satisfactory were the actions of the customs offices concerning confiscated and abandoned goods. We found the unreasonably lengthy procedures, inconsistent actions in the management and documentation of procedures, high costs of storage of goods and pointless storage of unusable goods and goods unsuitable for further use to be irrational and we made a number of recommendations to the Customs Administration which we believe should help to remedy these weaknesses and shortcomings in its operations. In the report we also pointed out to the Main Customs Office the unlawful actions by one of the officials at the Customs Office in Ljubljana, whose actions benefiting a persons liable for customs prejudiced the state budget. We instructed the office to carry out a special inquiry and to take appropriate measures against the official.

At the *Health Insurance Institute of Slovenia* we performed an audit of the project to introduce health insurance cards which began in 1995 and was completed in 2000 (report no. 1213-3/00-32). We examined the regularity of the procedures involved in decision-making and carrying out the project and tested the regularity of funds planned and used for this project. We established that in the implementation of the project the resolutions of the general meeting and the management board of the Institute were not consistently taken into account, and that part of the costs of the project was met from current revenues that were not intended for financing this project. We also discovered that the Institute concluded contracts with equipment suppliers and the providers of certain services which differed in terms of price and certain other conditions from the bids that had been made. We also discovered other violations of the provisions of the Public Procurement Act and

so we issued an opinion with reservations to the Institute in respect of its actions relating to the introduction of the health insurance card project.

## **Auditing of public institutes**

In addition to the obligation to audit the regularity of the implementation of the state budget we also have to audit every year the operations of the Health Insurance Institute of Slovenia and the Pension and Disability Insurance Institute of Slovenia, and under the previous Court of Auditors Act the Employment Service of Slovenia was also included among the mandatory auditees.

In 2001 we completed two audits of these auditees. We issued a *Report on the Audit of the Financial Statements of the Pension and Disability Insurance Institute of Slovenia for 1999* (report no. 1214-2/00-17), and in it confirmed that the Institute had truthfully and honestly presented its position and the results of its operations, and a *Report on the Audit of the Financial Statements of the Employment Service of Slovenia for 1999* (report no. 1214-3/00-24), in which we issued an opinion with reservations because the ESS did not include in its statements all the claims on the Ministry of Labour, Family and Social Affairs and did not include all its liabilities to entitled beneficiaries. Moreover, it did not include a charge for due claims on unauthorised recipients of programme funds.

In an *Audit of the Operations of RTV Slovenia in 1998 and 1999* (report no. 1212-10/99-35) we tested the regularity of operations, focusing on certain balance sheet items and the actions of this public institute. In the audit we discovered errors in the disclosure of costs deriving from redeemed rights to broadcast films and irregularities in the management of TV channels and in the concluding of contracts with makers of TV programmes, all of which had an influence on our issuing of an opinion with reservations.

In an *Audit of the Operations of the Secondary School of Commerce in Ljubljana from 1995 to 1999* (report no. 1211-1/00-11) we tested the regularity of operations, especially with regard to revenues, costs and investments in the school premises and computer literacy. The irregularities that we discovered in the payment of wages and other personal incomes of employees had an effect on our issuing of an opinion with reservations.

## **ADVISING USERS OF PUBLIC FUNDS**

Providing advice is one of the important tasks of the Court of Audit. The Court of Audit advised the public administration on the basis of the first paragraph of Article 21 of the old Court of Audit Act. It also performs this task pursuant to the new Court of Audit Act, which also provides for the advising of users of public funds in Article 21. The new Court of Audit Act regulates this area differently and permits advice to be provided in different forms. We provide advice:

- while the audits are being performed; on the basis of experience from previous audits we give advice in order help the auditee remedy any irregularities, shortcomings or weaknesses discovered,
- in clarification meetings at which, together with the auditee, we try to resolve any disputed findings and suggest possible methods of remedying errors or irregularities established,
- by means of recommendations which we give to the auditee during the audit and in the audit report,
- through comments on the working drafts of the texts of laws and other regulations,
- by taking part in consultations and seminars,
- by issuing opinions on questions of public finance.

Members of the Court of Audit and supreme state auditors provide advice by expressing opinions on a public finance problem or question which they either base on experience, i.e. on previous audits, or in which they give their own personal expert opinion. If the public finance question does not relate to a subject covered previously in the work of the Court of Audit then an opinion is given by the senate of the Court of Audit. An opinion by the senate is binding as far as the judgement of a state auditor is concerned.

The advice given to public fund users in 2001 referred mainly to the following questions:

- recording of incomes and expenditures in the state budget,
- the introduction of new accounting regulations and the related transition from accounting after the occurrence of an event to cash-flow recording,
- the compilation of annual reports of budget users,
- the use of budget funds for personal incomes of employees,
- implementing the financial plan of a prosecutor's office – reimbursement of costs to employees,
- the possibility of an assignment contract being concluded for a budget user,
- the executability of a decision by a state body,
- the award of public contracts,
- the purchase of furnished business premises for a budget user,
- covering the costs of using business premises among users of public funds,
- the functioning of internal audit services in state bodies.

In the audit reports which we issued in 2001 we made a total of 83 recommendations to 28 auditees. Our recommendations referred mainly to the following areas of their work:

- arrangements ensuring the regularity of operations and greater transparency of public funds,
- the clarity of financial plans,
- criteria for monitoring operational efficiency,
- evaluation of financial investments and greater transparency in the presentation of business events,
- the concluding of contracts between budget users and service providers or suppliers of goods,
- the suitability of the current organisation from the point of view of reducing administrative costs,
- the use of the possibility for rearrangement of working hours thereby reducing operating costs, especially concerning the provision of administrative support for the work of bodies and commissions,
- the payment of attendance fees to members of the management and supervisory bodies,
- the introduction of new systems of internal control and strengthening of the existing systems.

We also carried out other forms of consultation: in 2001 the Court of Audit took part in debates on the new law to regulate the public sector wage system; members of the Court of Audit, supreme state auditors and certain other auditors of the Court of Audit made contributions at seminars, professional consultations and study workshops organised by the Association of Economists of Slovenia, the Association of Accountants, Financial Managers and Auditors of Slovenia, the Slovenian Audit Institute and by the auditees; the Court of Audit also works together with the universities in Ljubljana and Maribor on the implementation of training programmes relating to public finances and state auditing.

## MONITORING THE EFFECTS OF AUDIT WORK

### Measures based on audit findings

The auditees remedy a large number of errors and irregularities *actually during the audit*. We generally report on this in the audit reports. The following important measures were taken by the Slovenian government and direct budget users by the time the audit report was issued:

- During the audit of the final account of the state budget for 2000 the Payments Agency transferred to the budget the surplus of incomes over expenditures established in its operations in 1998. An amendment to the law regulating the implementation of the budget for 2000 and the introduction of a new budget item to cover the costs of minting coins and other costs of the Bank of Slovenia established the foundations for remedying the irregularities that had been established for a number of years already in the disclosure of a surplus of incomes over expenditures of the Bank of Slovenia.
- The Ministry of Finance changed the MFERAC computer application which supplements the credit management information and enables better coordination of records.
- The Ministry of the Interior remedied irregularities in the payment of supplements to employees' wages.
- During an audit the Ministry of Health concluded the missing contracts on the purchase of land and apartments and an annex to a contract with the central hospital and works contractors, which was a condition for the transfer of earmarked funds.
- The Protocol Services Office made new calculations of the prices of its services and submitted the prices to the government for confirmation. In order to remedy irregularities in the awarding of public contracts it adopted a number of measures, including carrying out a public tender for the purchase of food and adopting internal acts in which it clearly set out the procedures and responsibilities concerning public procurement.
- The Government Protocol Office established records of stocks of protocol gifts and produced a catalogue of gifts to ensure easy and timely selection and purchase of gifts, and submitted a proposal to the Government Joint Services Office to carry out public tenders for the award of those contracts where we discovered irregularities in the audit.
- During an audit the Customs Administration of the Republic of Slovenia adopted certain measures which helped to reduce the costs of storing confiscated and abandoned customs goods. It adopted instructions on handling procedures when the buyer or other client does not take over the goods within a certain time limit. The instructions also prescribed the procedures for correct documenting of procedures and storage of documents, which was a shortcoming established in the audit.
- The National Assembly returned to the budget the funds that were incorrectly transferred to it for investment expenditures and transfers.

The municipalities also remedy the majority of the errors and irregularities which we discover in the audit of the regularity of their operations during the audit itself. In the reports we report in detail on the following measures.

- For incorrect and wrongly paid wages or other personal incomes the municipalities established claims on the mayors and the employees and have already returned to the budget in full or in part the funds paid out without justification.
- For unlawful payments in the form of vouchers all the employees in one of the municipalities undertook to return the sums received in instalments, and some was repaid during the audit. In four municipalities the mayors adopted rules on the classification of jobs in the administration and issued new decisions to employees reallocating them to positions that conformed with their education, or set wage levels with the appropriate coefficient and supplements.
- For the irregularities established in the financing of political parties (unlawful payments of grants and unauthorised settlement of costs for the functioning of parties) claims were established in one of the municipalities, while in another adjustments were made in the budget for 2000 to take into account the excess sum paid out in 1999.
- In one of the municipalities unlawful financing of councillors' clubs was stopped in June 2000 and a claim established in the accounts for the funds already transferred.
- In four of the municipalities investments were recorded during the audit among long-term assets to ensure the correct presentation of the assets of the municipality.
- In the case of two investments where we established in the audit that the municipality had not correctly insured against potential errors in execution, the municipality obtained a bank guarantee from the contractor to put right any errors within the guarantee period.

During the audit errors and irregularities were also remedied by:

- the Employment Service of Slovenia, which established regular recording of business events in line with the Accounting Act and improved the method of recording the liabilities of the ESS to eligible beneficiaries deriving from concluded contracts; the ESS obtained an opinion in respect of taking a charge against the value of its claims and took this into consideration in the compilation of the final account for 2000;
- The Secondary School of Commerce in Ljubljana remedied the irregularities established in the concluding of authorial contracts and work contracts with full-time teaching employees and ensured that their workload was within the permitted extent.

Auditees take measure to remedy irregularities requiring a more thorough treatment and a range of activities to establish a regular state of affairs *after the audit report has been issued*. In 2001 the auditees informed us that on the basis of our audits they had taken the following measures:

- The Main Customs Office of the Republic of Slovenia made personnel changes relating to the discovery of unlawful actions and the remedying of shortcomings in the functioning of controls at the office in Ljubljana.
- One of the municipalities sent to the Court of Audit in October 2001 proof of the repayment of unlawful payments for the remaining part of the wages of the mayor, for

unlawful incomes in the form of vouchers and for unauthorised grants to political parties. In September 2001 the municipal council of one of the municipalities passed a resolution ordering the repayment of funds paid illegally to the councillors' clubs in ten monthly instalments and in September already secured payment of the first instalment. In one of the municipalities employees were reallocated to positions corresponding to their education.

- The Health Insurance Institute of Slovenia analysed the differences between the actual and the required education of employees and adopted measures to remedy irregularities, which it included in its business plan for 2002. In 2001 the Institute adopted two internal acts regulating public procurement, and also began development of a special computer application to enable greater supervision over the awarding of public contracts.

Under the new law auditees must report on the remedying of errors and irregularities in the post-audit procedure in a *response report*. In the audit reports which we issued in 2001 we made 11 requests for a response report to be submitted. The deadlines for reporting on the measures taken to remedy errors and irregularities discovered expired in 2002.

## **Implementation of recommendations**

We also make recommendations in the audit reports. In this way we are aiming primarily to improve operations and to help overcome the weaknesses and shortcomings that we discover in the audit procedures. The recommendations to the auditees are not binding but nevertheless we find that the auditees do actually implement most of our recommendations.

In 2001 we made the following recommendations:

- We suggested to the Slovenian government that it should study the implementation of the first paragraph of Article 65 of the Public Administration Employees Act (Uradni list RS, nos. 15/90, 5/91, 16/91, 22/91, 2/91-I, 4/93, 70/97 and 38/99: "ZDDO"), which provides for a higher coefficient only as an exception. This was because in the audits we established that a higher coefficient had been set under the aforementioned article in as many as 20 to 40 per cent of positions in the ministries. In the explanations of the resolutions setting a higher coefficient for particular positions it is not clear that the reasons for setting such coefficients were specifically considered, or what exceptional circumstances existed for such a decision. This method of applying the first paragraph of Article 65 of the ZDDO in our judgement exceeded the purpose of this provision, which is defined as a decision to be taken by the government in exceptional cases. The law regulating the implementation of the budget of the Republic of Slovenia for 2002 and 2003 provides that the higher coefficients can be reapplied only for positions occupied by employees for a fixed period and for the term of office of a minister under the third paragraph of Article 8 of the ZDDO. We believe that for setting higher coefficients the basis for all positions for which wages were determined under Article 65 of the ZDDO should be verified

- In their reports on the implementation of recommendations the Ministry of Justice and the Office of the Public Prosecutor of the Republic of Slovenia mentioned the activities that they had undertaken:
  - for monitoring the extent of the work accomplished by the individual public prosecutors with the introduction of a computer-supported system for monitoring the number of new case, cases in progress and unresolved cases.
  - for setting a reasonable period (three months) for resolving cases,
  - preparation of criteria for establishing work efficiency,
  - changes to the classification of job positions,
  - changes to the regulations in force which, in our judgement, will contribute to rationalising the operations of the higher public prosecutor's offices,
  - the formulation of unified instructions for management and recording of the cases of public prosecutor's offices.
- The Consumer Protection Office of the Republic of Slovenia studied a recommendation in connection with the method of allocating funds for providing advice to consumers.
- In the audit of the sale of stakes in companies we recommended that the Slovenian Development Corporation d.d. Ljubljana should define the strategy and plan the sales in detail in its annual plans. We also proposed that it should monitor and analyse the costs of a sale and the effects of a privatisation with reference to the goals set. In the business plan for 2000 the SDC included detailed information about envisaged sales. It also amended the internal instructions for management of sales procedures and monitoring of the final effects of a particular sale.
- At our recommendation the municipality of Velenje adopted instructions on the reallocation of budget funds, which provide the basis for correct recording of changes in the budget.

## **Reporting of misdemeanours and criminal offences**

In 2001 the Court of Audit lodged 10 *proposals with a misdemeanours judge*, of which five were in connection with audits of the operations of municipalities and five were in connection with audits of organisers of election campaigns for the election of deputies to the National Assembly on 15 October 2000 pursuant to the Election Campaigns Act.

In the case of the audits of municipalities the proposals for commencement of a misdemeanour procedure concerned the following irregularities in particular:

- violation of the provisions of the Public Procurement Act,
- assumption of larger liabilities or payments from the budget than that specified for a particular purpose in the budget,
- assumption of a budget liability before it has been adopted, or violating the regulations governing temporary financing.

In the audits of election campaigns proposals were lodged for the commencement of a misdemeanour procedure concerning a violation of the provisions of the Election Campaigns Act, which provides that all the funds for an election campaign must be



collected in a special "election campaign" giro account, and all the costs of the campaign must be settled exclusively from this account.

Misdemeanour judges issued decisions in four cases. In two decisions the judge established that the defendant was responsible for the misdemeanour and imposed a fine. In both cases the responsible person lodged an appeal and the second-instance procedure has not yet been completed. In two procedures the misdemeanour judge rejected the proposal pursuant to the statute of limitations. The relative period of limitation expired after the proposal was lodged because by the time the one-year period of limitation expired no procedural act had been carried out by the misdemeanour judge. In six cases the misdemeanour judge has not yet issued a decision.

Of the proposals lodged in 2000 a misdemeanour judge issued in 2001 a decision in which an admonition was given to the responsible person for violation of the Financing of Municipalities Act.

In 2001 *three reports of criminal offences* were lodged on the basis of the audits performed at one of the ministries, one constituent body within a ministry and one direct budget user.

Reports were also lodged as a result of indications of criminal offences of forgery of official documents and abuse of official position and rights.

On the basis of the reports lodged in 2001 we received one resolution from a district court refusing a request for an investigation submitted by a district public prosecutor's office because there were no grounds for suspicion that a criminal offence had been committed, and in one case the district public prosecutor dismissed a report of a criminal offence lodged by the police because in his judgement it did not involve a criminal offence.

## **DEVELOPMENT EFFORTS OF THE COURT OF AUDIT**

### **Twinning project**

The twinning project involves a trilateral agreement between the European Union, a member-state and a candidate country. The aim of this co-operation is to develop or consolidate an institution in the candidate country so that the candidate country meets the conditions for entry into the European Union. The features of this project are that both the candidate country and the member-state are committed to the project, that a pre-accession adviser takes part in the project, that the project at all times has a director who performs the role of advisor, that the project lasts one or two years and that it is financed by the European Union.

The twinning project at the Court of Audit is the result of many years of successful co-operation between the supreme audit institutions of the United Kingdom and the Republic of Slovenia (the National Audit Office and the Court of Audit). The project was launched in September 2000, and both institutions are committed to achieving the goals in two years. In order to achieve the goal of developing the audit of public spending in Slovenia the project was organised so as to cover two key areas of auditing: development of the audit of operational regularity and development of the audit of operational efficiency. The development and modernisation of auditing has also been accompanied by the preparation of a manual and guidelines with the help of which the audit procedures will be brought fully into line with the standards applied in the member-states of the European Union.

Another of the goals of the twinning project is the training of auditors. In 2001 auditors underwent training at workshops, and also in practice by carrying out audits in parallel with the workshops. Eleven auditors attended a two-day individual consultation on audits of operational efficiency at the National Audit Office in London.

The biggest part of the project is aimed at development of audits of the regularity of operations. The objective of these audits was to develop methods, to train auditors and to apply the methods in specific audit cases. In 2001 the Court of Audit decided to perform 20 audits of the state budget and all the reports were published at the end of 2001. In addition, the twinning project helped to develop quality assurance procedures, which were first used in the audits of the state budget.

With the audits of operational efficiency we began a new type of audit which had not been performed at the Court of Audit to a substantial extent. Audits of operational efficiency are characterised by checking the efficiency of the processes and activities and not merely the financial statements or the regularity of business transactions. First we performed pilot audits that covered six selected fields, with the aim being to train the auditors and to apply the methods in specific audit cases. At the end of 2001 the pilot audits were in the concluding phase, i.e. the compiling of the draft audit reports.

One of the tasks of the twinning project was to compile guidelines and a manual for the implementation of the audit process. During the implementation of the audits the auditors and the advisers to the deputy presidents of the Court of Audit also prepared the content

of the guidelines and the manual. At the end of 2001 drafts were prepared for seven guidelines for the implementation of the audit process, from assurance of quality to reporting and monitoring of the corrective effects. At the end of the year all the chapters for the content of the manual had been laid out. We will issue the guidelines and the manual at the start of 2002.

## Employment

One of the strategies of the Court of Audit in 2001 for achieving its goals was to increase the number of auditors and to strengthen the services for supporting audit tasks, and therefore personnel policy was focused on acquiring new auditors and advanced training of those already employed in audit work. In this year employment contracts were signed with 19 people: one official, one adviser to the president, 14 auditors and three staff members of the support services. During the year nine employees left the Court of Audit.

On 1 January 2001 a total of 92 people were employed at the Court of Audit. By 31 December the number had risen to 102. This represents a 10.9 per cent rise in the number of employees. Yet despite this increase the aim of having 110 employees by the end of the year was not achieved due to staff turnover (8.1 per cent of employees leaving). In terms of the planned employment level the realisation was 92.7 per cent.

In 2001 there was an improvement in the employee education structure. At the end of 2000 a total of 73 employees had university education or master's degrees. By the end of 2001 the total had risen by 13.7 per cent to 83. The number of employees with secondary education remained unchanged. The changes in the education structure in 2001 are shown in Table 4.

Table 4: Changes in the education structure in 2001

<b>Education</b>	<b>No. of employees 1 January 2001</b>	<b>No. of employees 31 December 2001</b>
Doctorate	4	3
Master's degree	6	9
University education	64	71
Higher education	3	3
Further education	3	4
Secondary education	11	11
Vocational education	1	1
<b>Total</b>	<b>92</b>	<b>102</b>

After the enactment of the new Court of Audit Act it was necessary to change the organisation of the Court of Audit so that audit powers could be exercised more efficiently. We changed the organisational structure by reducing the number of organisational units and increasing the number of auditors in the audit departments. The change was partly determined by the new classification of jobs. We verified all the descriptions of the work and tasks and redefined the conditions for each position. The new job classification system is designed to enable younger auditors to be taken on who,

through training to obtain the title of state auditor or experienced state auditor, can progress to more demanding positions. At the same time the more demanding positions are sufficiently stimulating that they can attract candidates with greater work experience.

Because of the changes in the organisation we also had to reallocate personnel capacities so that the organisational units were suitably occupied with respect to the scope and difficulty of the area of work. When employees were allocated to new positions those who demonstrated in their work that they were capable of carrying out more demanding tasks were promoted. At the same time we established a suitable ratio between auditors employed in more demanding positions and auditors in less demanding positions. At the end of 2001 more demanding positions were occupied by 37 auditors and less demanding positions by 23 auditors. This changed organisational structure enables a more efficient organisation of the work and better work results to be achieved. The overall structure and occupation of positions as at 31 December 2001 is shown in Table 5.

Table 5: Overall structure and occupation of positions as at 31 December 2001

<b>Position</b>	<b>No. of employees 31 December 2001</b>
Officials	10
Advisers	4
Deputy supreme state auditors	0
Assistant supreme state auditors	17
Senior audit experts	20
Audit experts	23
Trainee audit experts	1
Support service positions	27
<b>Total</b>	<b>102</b>

Of the 102 employees in 2001 a total of 10 employees, or 9.8 per cent, carried out management tasks; tasks related to the performance of audits were carried out by 64 employees, or 62.7 per cent; and 28 employees, or 27.5 per cent, carried out other areas of work.

## **Training**

In December 2001 the Court of Audit organised a training week which was attended by 78 employees, of whom 72 were employed in auditing. The programme was aimed at improving the system of quality assurance, which was also one of the main strategies that the Court of Audit used in 2001 to realise the goals it had set. It encompassed:

- a review of the work in the area of training to carry out audits in the twinning project,
- topical issues concerning auditing,
- the annual work programme for the exercise of audit powers,
- presentation and instructions for the application of guidelines for internal control,

- obtaining evidence, arranging documentation and quality assurance,
- time management,
- presentation of the strategy for electronic operations and the e-administration project,
- presentation of the use of the Idea2000 computer program,
- presentation of the overall image of the Court of Audit,
- projection of the ZRacS-1, the rules of procedure, and other acts of the Court of Audit,
- report on international co-operation.

The training programme lasted 33 teaching hours. The participants described it as being very well implemented.

In 2001 the employees of the Court of Audit also attended other forms of training. Various seminars were attended 96 times by auditors(73.3 per cent), and 35 times by of other employees (26.7 per cent).

Twelve employees had contracts for training to obtain a higher grade of education or an academic title, and four of them successfully completed their studies, while two ended their employment. At the end of 2001 the Court of Audit still had six employees who were training to obtain a higher grade of education or an academic title: four at postgraduate level to obtain a master's degree, one to obtain a university education and one to obtain further education.

At the start of 2001 four trainees were training to perform audit work. Three of them passed the professional exam after completing the trainee period, while the fourth had not completed the traineeship by the end of the year.

International co-operation also incorporates education and training: an adviser to a deputy president of the Court of Audit attended a month-long training programme in Prague on contemporary methods for preparing training in individual audit institutions of the European Union candidate counties within the framework of EUROSAI. When she has gained further training she will pass on her knowledge to her colleagues at the Court of Audit, and she may also train auditors from other European audit institutions.

## **Co-operation between institutions**

One of the main objectives in 2001 was to strengthen the co-operation with the European Court of Auditors and also with certain other supreme audit institutions. Therefore in September a three-member delegation, comprising the president, a supreme state auditor and the secretary of the Court of Audit, went on a working visit to the European Court of Auditors in Luxembourg. Their discussions included a presentation of the functioning of the Court of Audit, a presentation of the new Court of Audit Act and an exchange of opinions.

The European Court of Auditors is one of the institutions with which we cooperate in the area of training. In 2001 two employees of the Court of Audit went there to familiarise themselves with the powers and activities of the European Court of Auditors and its audit methods. One

auditor took part in a training course there for five months, while another employee from the informatics sector attended a one-month training course there.

One auditor attended the one-month seminar organised annually by the UK's National Audit Office. The topic of the seminar was the introduction of a financial audit and an audit of the implementation of tasks.

Together with the Czech supreme audit office we carried out a parallel audit of embassies: our supreme audit institution audited the Slovenian embassy in Prague while the Czech supreme audit institution audited the Czech embassy in Ljubljana.

## **International co-operation**

The international co-operation of the Court of Audit in 2001 proceeded on the basis of the contacts and ties already established at multilateral and bilateral levels, as well as on the basis of new initiatives as and when they arose. Official meetings, exchanges and international participation within these frameworks were never merely a courtesy or of a protocol nature but always had a defined working content.

In May the president of the Court of Audit visited the Polish supreme audit institution in Warsaw. The aim of the visit was gain a familiarisation with the preparations underway for the pre-congress seminar, for which the Court of Audit has prepared a written contribution.

Also in May the president of the Court of Audit took part in a meeting of supreme audit institutions of the Central and Eastern European countries (CEEC) plus Cyprus and Malta in Budapest. The theme of the meeting was an exchange of experience in the co-operation of individual supreme audit institutions from the European Union candidate countries with individual member-states of the European Union. The CEEC working group links the supreme audit institutions of all the European Union candidate countries and the European Court of Auditors. For us the group is of particular interest because with accession to the EU new obligations and duties await us in the area of the auditing of budget spending, and therefore the exchange of experiences with other candidates and the dialogue with the European Court of Auditors are extremely beneficial.

In the middle of June the second deputy president of the Court of Audit attended a meeting in Budapest of the working group on privatisation auditing under the auspices of the International Organisation of Supreme Audit Institutions (INTOSAI) on the subject of the guidelines for auditing regulators and audit supervision of public-private financing and concessions. The Court of Audit is only an observer in this group but we have decided to apply for membership because the results achieved by this group are very useful as far as the work of our audit institution is concerned.

In September a three-member delegation from the Court of Audit, headed by the president of the Court of Audit, took part in a pre-congress seminar of the European Organisation of Supreme Audit Institutions (EUROSAI) in Warsaw. An auditor from the Court of Audit prepared a paper on the use of computing tools in the auditing of the budget. This

contribution from our Court of Audit on this topic went down very well; we received oral and written praise from the other countries that took part in the seminar.

In November the president of the Court of Audit and a supreme court auditor attended a European Commission conference in Brussels. The theme of the conference was the development of public spending auditing in Europe.

In the middle of October the international relations adviser to the president of the Court of Audit participated in a meeting in Sofia of representatives of the supreme audit institutions of the Central and Eastern European countries, Cyprus and Malta responsible for international relations. The aim of the meeting was to study the relations and co-operation between supreme audit institutions and the parliamentary committees charged with deliberating the audit reports.

At the end of October the first deputy president of the Court of Audit and the adviser to the president of the Court of Audit took part as Slovenia's representatives at the 17th INTOSAI congress in Seoul. The central themes of the congress included audits of international and supranational institutions, the contribution of supreme audit institutions to administrative and governmental reforms, their role in the planning and introduction of administrative and governmental reforms, and their auditing. The congress was also an opportunity for an exchange of opinions and for establishing new ties between supreme audit institutions and consolidating the existing ties.

In 2001 Ljubljana too was the scene of a number of important events concerning the international co-operation of supreme audit institutions and working visits.

At the end of February the Court of Audit in Ljubljana received an official visit from Sir John Bourne, the Auditor-General of the United Kingdom of Great Britain and Northern Ireland. The purpose of his visit was to officially confirm the co-operation agreement between the British and Slovenian supreme audit institutions (twinning project).

At the end of March a meeting was held at the Court of Audit in Ljubljana of the members of the Governing Board of EUROSAI, hosted by the president of the Court of Audit, who is also a member of the Governing Board of EUROSAI. The meeting was aimed at preparations for the EUROSAI congress in Moscow in 2002, the programme of professional training under the auspices of EUROSAI, co-operation between EUROSAI and the INTOSAI Development Initiative (IDI), and determining the representation of EUROSAI on the Governing Board of INTOSAI.

In May the Court of Audit organised an international seminar on auditing in the area of information technology in the public sector within the framework of the INTOSAI Standing Committee on Electronic Data, which the Court of Audit is a permanent member of. Several foreign experts gave lectures at the seminar, which was attended by participants from 29 countries. Countries around the world are allocating more and more funding to the computerisation of the public sector; the lecturers at the seminar were experts from countries that have the most experience and have already performed many audits in this field. They highlighted the possibilities for fraud in the awarding of public contracts, how to supervise investments in information technology and the use of funds

for this purpose. The seminar also featured presentations of the systemic aspects of the work of supreme audit institutions in the area of auditing in an information technology environment, and the auditing guidelines and methods. In this seminar the Slovenian Court of Audit expanded its knowledge through familiarisation with the practice and experience of the foreign participants.

In June the Court of Audit was visited as part of the United Nations Development Programme by a four-member delegation from the Serbian parliament seeking to learn about the functioning of the Court of Audit.

At the end of July the European Commissioner responsible for the budget and financial control Michaela Schreyer visited the Court of Audit as part of her official visit to Slovenia. Her discussions with the Court of Audit centred on the budgetary and financial aspects of Slovenia's accession to the European Union.

At the end of September the Court of Audit was visited by the 18-member budget and finance committee of the German state of Saxony. The visitors were mostly interested in the powers, work methods and status of the Court of Audit compared to the other branches of power.

At the start of October the Court of Audit was visited by a three-member delegation from the parliament of Vojvodina in Yugoslavia. The members of the delegation were interested in the audit procedure at the Court of Audit and the relations and co-operation between the government and the Court of Audit.

## **Internal audit**

The internal auditor of the Court of Audit, Orijana Osolnik, who is an assistant supreme state auditor, performed an audit of the regularity of the financial statements of the Court of Audit for 2001, on which she issued audit report no. 3108-2/01- 2.

## **Basis and goals**

The audit of the financial statements of the Court of Audit for 2001 was carried out on the basis of order no. 3108-1/01-3 of the president of the Court of Audit for 2002 as a mandatory audit in accordance with Article 67 of the Rules on the Accounting and Financial Operations of the Court of Audit (Rules on the Accounting and Financial Operations of the Court of Audit no. 3101-5/01-1 of 16 November 2001).

The audit related to the financial statements of the Court of Audit for 2001:

- the balance sheet as at 31 December 2001,
- the statement of incomes and expenditures for the period from 1 January 2001 to 31 December 2001.



The goal of the audit was to give an opinion on the truthfulness and credibility of the financial statements of the Court of Audit for 2001.

## **Opinion**

Pursuant to Article 67 of the Rules on the Accounting and Financial Operations of the Court of Audit an audit was performed of the financial statements of the Court of Audit, which encompassed an audit of the balance sheet as at 31 December 2001 and of the statement of incomes and expenditures for the period from 1 January to 31 December 2001.

The audit was carried out in accordance with basic accounting principles and international auditing standards. These principles and standards require the auditor to carry out the audit so as to obtain a reasonable assurance that the financial statements are free of material misstatements.

On the basis of a verification of the items in the financial statements referred to in the report the internal auditor believes that the financial statements of the Court of Audit present a true picture of the situation as at 31 December 2001 and of the results of its operations in the period from 1 January 2001 to 31 December 2001.