



Annual Report 2002

Number: 3105-1/2003-1

9 April 2003

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Foreword

The purpose of the Annual Report is to show *whether the Court of Audit is engaged in the proper audit issues in the proper way*. If the Court of Audit is engaged in the proper audit issues, it is *effective*. If the Court of Audit is engaged in them properly, it is *efficient*.

Let us examine the audit issues which were engaging the Court of Audit last year. Most of the available audit time was intended for the implementation of audit responsibilities. The term *audit responsibilities* defines audits which are required by legislation. The audit responsibilities can be divided into responsibilities which are *precisely defined* by the Act and responsibilities which are *generally defined*. Those audit responsibilities which are precisely defined by the Act can be called *strictly mandatory audits*. These include: audits which were proposed by the members of the Parliament or its working bodies; the audit of the regularity of the implementation of the State budget; the audit of the regularity of the business operation of the public health insurance institute; the audit of the regularity of business operation of the public pension insurance institute; regularity audit of the Slovene Development Company; reviews of the annual reports of political parties and, after the State elections, audits of reports prepared by the election campaign organisers.

Deleted: the

The audits that are implemented by the Court of Audit and are defined by the Act in a general way can be called *selective mandatory audits*. These include audits of business operation of selected municipalities, audits of business operation of selected public utilities and audits of business operation of selected public non-commercial services.

The data presented in this report (page 25) shows that in 2002 the Court of Audit used 76 per cent of the available audit time for the implementation of its audit responsibilities: 32 per cent of the available audit time for the mandatory audits and 44 per cent of the available audit time for the selective audits.

For the rest of the audits, which can be called *optional audits*, the Court of Audit spent 24 per cent of the available audit time. Among the optional audits there were some regularity audits and also all of the performance audits. It is necessary to stress that privatisation audits are categorised as performance audits. Privatisation audits should not be overlooked while implementing the audit responsibilities.

Considering that in 2002 the Court of Audit allocated 76 per cent of the available audit time for the implementation of its audit responsibilities and considering the types of mandatory, selective audits and optional audits which were undertaken, I am able to say that the Court of Audit *was engaged in the proper audit issues*.

Now let us examine whether the Court of Audit was engaged in those issues properly. Namely, whether the Court of Audit implemented its audits efficiently. One of the basic performance indicators for the Court of Audit is *the number of audit reports issued in a calendar year*. In 2002 the Court of Audit issued 47 audit reports, that is final audit reports. In previous years the Court of Audit issued more reports when

there were fewer auditors and consequently there was less available audit time. Nevertheless the number of issued audit reports last year does not indicate the inefficiency of the Court of Audit, since the numbers are not comparable. The reasons for the difference are presented on pages 20 and 21 of this report. To illustrate why such a comparison is misleading we can take one of the key audit areas - it relates to the method used to audit the implementation of the State budget. In other words, how the Court of Audit undertook the largest audit obligation in 2002.

The audit of the State budget can be carried out in the number of ways. When considering the methods of auditing the State budget, there is a distinction between the basic methodological dichotomies. One of them is: implementation of the State budget can be audited by:

- Undertaking many independent audits

or by

- Undertaking a single audit¹.

In the first few years (1995, 1996, 1997, 1998) we undertook many independent audits of the State budget. In 1999 we used another method, which was improved in 2000 and 2001 and was finalised last year. So that the Court of Audit issued only one report on the implementation of the State budget. In the previous years, when many independent audits were undertaken, the Court of Audit issued many audit reports. Each audit report related to the implementation of an individual state budget item. However the audit report on implementation of the State budget for 2001 is equivalent to at least 17 audit reports on each state budget item from previous years. On the other hand that does not mean that the audit report on implementation of the State budget for 2001 was of higher quality than the individual audit reports from the early years of the Court of Audit. Reporting on disclosed irregularities, as well as the procedures for disclosing irregularities, will have to be improved.

The changed method of auditing the State budget is one of the key reasons, but not the only reason, why the number of audit reports from 2002 is not comparable to the number of audit reports from 2001, 2000 or 1998. To summarise, due to the important methodological and other changes in the audit procedures of the Court of Audit and due to specific circumstances (i.e. elections), the number of audit reports issued in 2002 cannot be directly compared to the number of audit reports issued in the previous years.

Although it would be possible to compare the number of audit reports; the number of the reports issued cannot suffice for an assessment of the Court's efficiency. It is necessary to introduce another performance indicator. The performance indicator which can be used for comparison over the years, is *the average number of calendar days from the commencement to the completion of an audit*. The values of that indicator have approximately the same meaning in the observed years. If we measure the efficiency of the Court of Audit with this indicator, it is clear that the efficiency has improved. The data presented on pages 21 and 22 support the above statement.

¹ *single audit approach*

D. H. Taylor and G. W. Glezen in their book with the title *Auditing: Integrated Concepts and procedures* (Slovene translation issued in 1996) explain that there is the *Single Audit Act in the USA*. The Internal Audit Service at the EC organised two conferences (Brussels 2001 and 2002) where the *single audit concept* was discussed.

The best performance indicators are indicators which include *the number of auditor-days spent for the implementation of an audit*. The number of auditor-days spent for some of the audits in 2002 is presented on page 24 of this report. The efficiency of the Court of Audit measured by the number of auditor-days spent for the implementation of audits is constantly increasing, but it has not yet reached a satisfactory level. In particular the number of auditor-days for the implementation of standard regularity audits is, in many cases, too high. In other words, the correlation between the number of material audit findings and the number of spent auditor-days is too low.

In order to improve the efficiency of the Court of Audit, it is necessary to:

- Introduce appropriate management of the audit departments;
- Support auditing with IT, such as TEAM MATE, or at least PROSIT, which was developed by the supreme audit institution of Norway;
- Improve the existing audit methods and audit skills, to be able to use risk assessments when selecting and implementing audits.

The basic objective of the developmental initiative is to improve audit methods. The key developmental routes are defined by the new one-year *Twinning Project*. The Court of Audit registered the proposal at the European Commission in 2002 and the project was launched. The Twinning Project is presented in detail on page 50 of this report. The project is being undertaken in co-operation with the NAO of the United Kingdom, the Audit Commission of the United Kingdom, the NAO of Denmark and the Spanish Court of Audit.

The Court of Audit is not only engaged in institutional development but also in the development of professional skills. Through training, the Court of Audit wants to achieve a higher level of professionalism in implementing audit responsibilities. In 2002 the Court of Audit developed a training programme for the titles *State Auditor* and *Certified State Auditor*. The titles are defined by the Court of Audit Act. The development of professional skills is presented in detail on pages 53 and 54 of this report.

If we look back after eight years of institution building, and the development of the level of professionalisation of the Court of Audit in implementing audit responsibilities, and compare the previous situations with the present one, we can say that:

- The Court of Audit is making progress, perhaps too slowly, but it is making progress; *non progređi est regredi*;
- The present situation unfortunately does not reflect an institution which is able to respond efficiently to all demands from the society. Therefore the Court of Audit often encounters dissatisfaction due to expectation gaps;
- The Court of Audit has developed co-operation with some of the national SAI-s from the European Union as well as with the European Court of Auditors. It is an investment which will be used by the Court of Audit in its future developmental initiatives;
- Compared to most West European SAIs, which have centuries-long tradition, the Court of Audit is quite a young supreme audit institution. In spite of this the Court of Audit has gained, in the relevant European professional society, noticeable status and professional respect.

It is quite the opposite within Slovenia. Although the Court of Audit has taken special

care to improve its level of professionalism, it is obvious that we have lately suffered *a crisis of trust*. This can be observed in state of relations with the Commission for budgetary and other public finance control. Needless to say that a crisis of trust is most unfortunate for any supreme audit institution. If there is no trust in the audit findings, the basic purpose of the audit institution is annulled. A lack of trust in audit findings and opinions was most evidently expressed on the 18th and 19th meeting of the Commission for budgetary and other public finance control, when two audit reports were discussed: the audit report on the implementation of the State budget for 2001 and the audit report on the business operation of the public utility Eles for the period from 1998 to 2001.

This crisis of trust is a significant problem. Let me emphasise that a lack of trust is the biggest misfortune that can happen to any supreme audit institution. It happens if a supreme audit institution is not perceived as a reliable institution. The trust is based on appropriate and sufficient reliability assurance. The Figure 1 (page 12) and the Figure 6 (page 18) show where the reliability of the Court of Audit is derived. Figure 1 shows the key phases in the audit process and Figure 6 shows how the audit procedure is implemented at the Court of Audit. The lack of trust in audit findings or audit opinions means that the reliability assurance of the Court of Audit is not appropriate or sufficient in some phases of the audit process or in some steps of the audit procedure. The question is where or why it is perceived as inappropriate and insufficient.

It appears that the mistrust comes from doubts over the political neutrality of the Court of Audit. Our aim is to implement audits *lege artis*, perhaps that is not evident and therefore it is not convincing. Due to a lack of trust in political neutrality of the Court of Audit, or more specifically due to a lack of trust in my political neutrality (and perhaps also a lack of trust in the political neutrality of the other two members of the Court of Audit) the Commission has a control tendency, which is, in my opinion, contrary to the common principle of independence of a supreme audit institution and contrary to Article 150 of the Slovene Legislation.

To do away with this lack of trust by reducing the independence of the Court of Audit is the worst possible way of solving the problem of mistrust, regardless of the fact that it is contrary to Article 150 of the Slovene Constitution. Since the independence of an SAI is not a value to be taken for granted. It is a value because it is a necessary condition for trust. Any SAI which is not perceived as an independent institution has difficulties in presenting itself as a reliable institution which can be trusted. To do away with this lack of trust in an SAI by annulling some of its independence, is therefore a unique *circulus vitiosus*: to reduce mistrust the independence is reduced, therefore the mistrust may increase.

If the doubt in audit findings or audit opinions was based on the old Cartesian principle *de omnibus dubitandum*, we could say that it was a noble doubt. But that is not true for the doubt which is based on political apriorism. It is true though that state auditors are not safeguarded from political bias by the Rawls' veil of ignorance². The auditors are safeguarded by generally accepted audit principles and rules, audit standards, best audit practice and professional ethics. But it is clear that these are not sufficient protection from political and other bias. Nevertheless the accusations that we succumbed to political pressure were exaggerated if not offensive, considering

² Rawls, J. (1971): *A Theory of Justice*, Harvard University Press, Cambridge.

what I know about audit cases. I hope that in the following years the Court of Audit will be able to create a professional authority and reliability which will not be subject to accusations of political bias, when issuing audit opinions that are contrary to expectations.

However, the creation of the identity of the Court of Audit as a supreme audit institution, which is watching over public money, is not yet completed. But it would be good, if the process of designing the identity elements of the institution, proved irreversible.

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

Basis for the Implementation of the Audit Programme

Auditing Powers and Obligations

The Court of Audit Act (Official Gazette of the Republic of Slovenia, no. 11/01) defines the field of work of the Court of Audit and the framework of its operation. The Court of Audit is authorised to audit the business operation of any user of public funds. The user of public funds under this Act is any legal entity of public law or a unit thereof; any legal entity of private law, any physical person provided that it has received financial support from the budget of the European Union, state budget or local community budget; it performs public services or provides public goods on a concession basis; it is a commercial company, bank or insurance company in which the state or a local community holds the majority share.

The Court of Audit may carry out regularity and performance audits of the business operation of users of public funds mentioned above; and it may audit any act on past operations as well as any act on planned business operation of any user of public funds.

Auditing of business operation under this Act is the obtaining of relevant and sufficient data to express an opinion on the business operation of the auditee. For regularity audits an opinion is expressed on compliance with regulations and guidelines that any user of public funds is required to observe in the conduct of business operation. For performance audits an opinion is expressed on economy, efficiency and effectiveness of an auditee's business operation.

The audit opinion expressed by the Court of Audit is a binding one and it must be respected by any state body, local authority or any other user of public funds, whose business operation was audited.

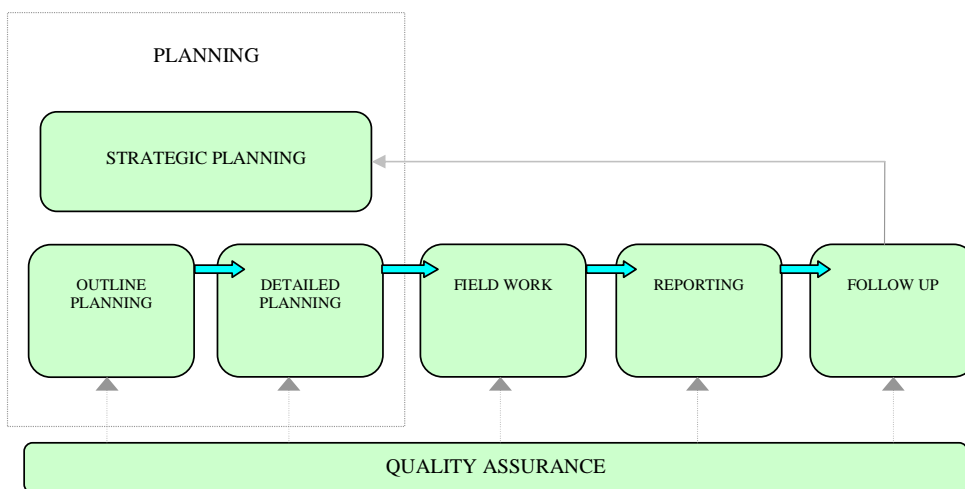
The Court of Audit Act defines audit authorities as well as audit responsibilities of the Court of Audit. Every year, the Court of Audit must audit the regularity of the implementation of state budget (the regularity of state activities); the regularity of business operation of the public institute of health insurance; the regularity of business operation of the public institute of pension insurance; the regularity of business operation of a suitable number of urban and other municipalities; the business operation of a suitable number of public utilities providers; the business operation of a suitable number of providers of non-commercial public services. Apart from the Court of Audit Act there are also other acts (Political Parties Act, Election Campaigns Act) which define mandatory audits.

Audit Process

The audit process is a sequence of activities that starts with identifying and selecting an audit proposal and is followed by detailed audit planning.

The purpose of outline planning is to identify and select audits that the Court will undertake. Any audit proposals that are in line with the Court of Audit mandate, proposals of deputies, bodies of the National Assembly, Government, Ministries, local government bodies and audit priorities or strategies can be presented to the President by Supreme State Auditors and Deputy Presidents. The audit process is presented in Figure 1.

Figure 1: Audit process



The audit proposal defines an audit in terms of the identification of the auditee, the general objectives of the audit, the reasons for the audit, the segments to be audited, the budget and timetable for the audit. The audit proposal may be:

- a proposal for a pre-audit or
- a proposal for a full audit.

In the pre-audit, which is implemented in the so called *pre-audit procedure*, the auditors collect audit data for risk assessment or obtain other data necessary for the selection of audits for the Annual Programme. If the audit proposal is approved, a pre-audit plan is prepared. After a report on undertaken pre-audit is completed, a proposal for a full audit or a proposal for withdrawing the audit is issued.

The audit procedure starts with preparation of the detailed audit plan which is included in the Annual Programme. After the detailed audit plan is approved, the decree on audit implementation is issued, then the following activities are: field work, issuing the draft audit report, clearance meetings, preparation of the proposed audit report, possible appeal against audit findings, senate work due to disputable audit findings. The audit procedure is completed by issuing an audit report. In financial and

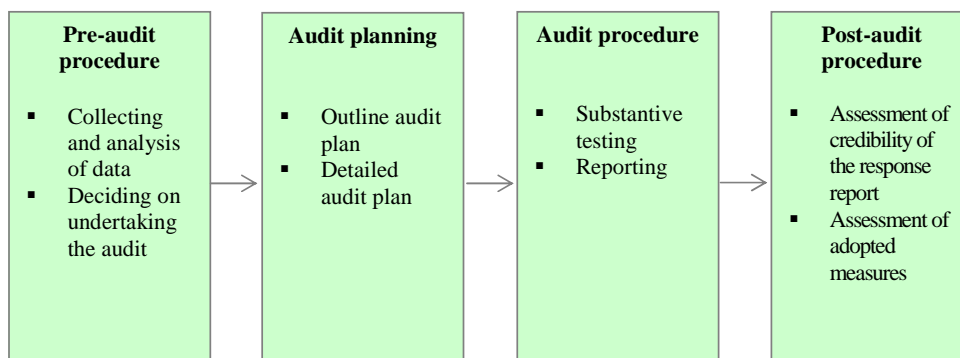
regularity audits the audit report contains an opinion expressed in standard form: positive, negative or with reservations. The type of audit opinion is based on the calculated most likely error, the upper error limit and the materiality threshold. The auditors can reject to express the opinion, if they cannot obtain sufficient and relevant audit evidence due to substantiated reasons, or when the auditee does not submit the documentation. For performance audits the opinion is always descriptive.

The post-audit procedure commences if irregularities or inefficiencies have been identified in the business operation of the user of public funds, except in cases where the audit report itself contains the statement that appropriate corrective measures for the remedy of disclosed irregularities and inefficiencies have already been taken in the course of the audit. The auditee must submit to the Court of Audit a response report on the remedial actions taken with regard to the disclosed irregularities and inefficiencies. The Court of Audit may test the credibility of the response report. If the Court of Audit determines that the response report does not provide for a satisfactory remedy of a disclosed irregularity and inefficiency, it shall be deemed that the user of public funds has violated the requirement for operational efficiency and the Court of Audit may issue a call for remedial action. The call shall be issued to the relevant authority which shall take action against the user of public funds. The authority must undertake appropriate activities within 30 days and report about them to the Court of Audit. If the requirement for operational efficiency has been seriously violated, the Court of Audit shall notify the National Assembly. The working body of the National Assembly shall adopt, after a discussion to which a representative of the user of public funds is also invited, a decision on measures to be taken in respect of a serious violation of the responsibility for operational efficiency.

If the requirement for operational efficiency has been seriously violated or the auditee makes it impossible for the authorised staff of the Court of Audit to commence their audit and does not fulfil the order for the submission of documents, the Court of Audit shall also issue a call for the dismissal of the officer responsible and a press release.

In the case where there is a justified suspicion that a violation or criminal offence has been committed, the Court of Audit shall propose the commencement of proceedings against such violation or file a motion for prosecution, as appropriate.

Figure 2: Procedure of audit implementation

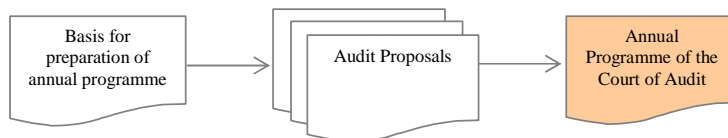


Implementation of the Audit Programme

Undertaking the Annual Programme of the Court of Audit

The Annual Programme is a document which is prepared by the Court of Audit on the basis of suggestions for the programme of work. The Annual Programme includes directions for designing audit proposals and priorities for the selection of audits. On the basis of the proposals made by the audit departments, the President selects the audits to be undertaken and includes them in the Annual Programme. The proposals for audits may also be submitted by the Members of the Court of Audit. The procedure of developing the Annual Programme is presented in Figure 3.

Figure 3: Audit planning procedure



The Annual Programme of the Court of Audit sets the audit objectives related to the timeliness and quality of the audit implementation as well as to the reporting on audit findings. The audits, which are defined as mandatory audits by the Court of Audit Act and other Acts, are considered priorities.

The implementation of the Annual Programme 2002 depended on the funds which were available to the Court of Audit. The tasks which were planned for 2002 were more demanding in scope and quality if compared to the tasks from the previous year. New quality controls were introduced which improved the quality of auditing and, above all, reporting. The resources which were used and the results that were achieved are set out in Figure 4 below.

Figure 4: Used resources and achieved results of the Court of Audit in 2002



In accordance with the data from the computer programme REVIS, which records the implementation of tasks, presence and absence of auditors, there were 13.789 auditor-days available in 2002. The number of auditor-days and the structure are presented in Table 1.

Table 1: Number of auditor-days by type of task

Type of task	No. of auditor-days	Structure in %
Preliminary audits	552	4,0
Audits	8.227	59,7
Other tasks indirectly linked to the audits	1.929	14,0
Absence from work	3.081	22,3
Total	13.789	100,0

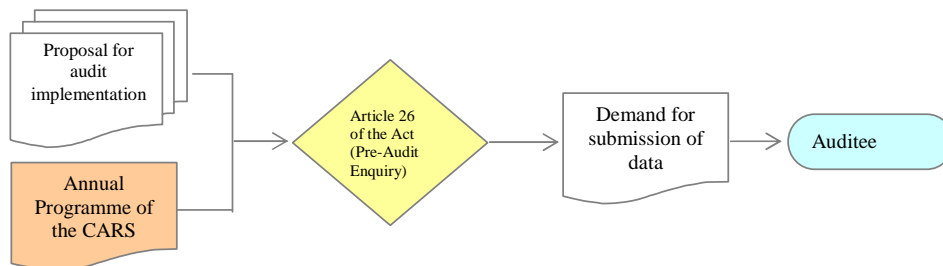
The Annual Programme 2002 planned the implementation of 40 pre-audits, 10 of them were from 2001. 28 pre-audits out of 40 were completed, nine pre-audits were included in the Annual Programme 2003, three planned pre-audits were not implemented due to the lack of capacities in 2002.

Among other tasks, which are recorded in REVIS as non-audit tasks, there are different types of training, participation at meetings at the Court of Audit or outside of the institution, tasks implemented on the request of the Head of the Department or Member of the Court of Audit.

Results of the Pre-audit Procedure

In 2002 there were 552 auditor-days planned for pre-audit procedures, that is 4 per cent of the available time. The purpose of pre-audit procedures is to check whether internal controls are set up and to test their operation, to review received proposals for undertaking audits, to decide whether to continue with full audits and to obtain data for preparation of detailed audit plans. The pre-audit procedure is presented in Figure 5.

Figure 5: Pre-audit procedure



51,3 per cent of the available time planned for pre-audit procedures was used for the audit of internal control systems at the budget funds users. There were 19 pre-audits implemented at all Ministries, four Governmental offices and the National Assembly.

Their purpose was to assess internal control systems and internal control operation in order to be able to evaluate inherent risk and control risk. Those assessments were used for planning the type, time scheduling and the scope of substantive testing in auditing the state budget for 2001.

On the basis of the testing of the internal control systems, the auditors assessed that the control environment supports the internal control operation within 11 direct budget users (57,9 % of all audited direct budget users). For all other direct budget users the auditors assessed, on the basis of testing the control environment, that the inherent risk was high due to various factors. The most obvious factors were: demanding programmes undertaken by the budget users, transactions of high value, undefined and non-unified managerial structures, complex organisation of entities, replacement of management and insufficient accounting system.

After the 18 pre-audits at other budget users were implemented, the Court of Audit reviewed the possibilities for undertaking full audits. Most inquiries related to statements in the proposals for undertaking audits where the individuals or organisations pointed out irregularities in the business operation of public law entities.

In 2002 the Court of Audit received 153 proposals for undertaking audits. Most of them were submitted by individuals or groups of individuals, 39 out of 153 were anonymous. The National Assembly submitted 7 proposals, Ministries and their subordinate bodies submitted 14 proposals, local community bodies submitted 18 proposals, representatives or bodies of political parties submitted 6 proposals and the State Public Procurement Commission submitted 3 proposals.

Out of the total of 86 proposals submitted to the Court of Audit in 2001 twenty four proposals were included in the Annual Programme for 2002. The Annual Programme consisted of 3 audits that were the proposal of working bodies of the National Assembly, one proposal for undertaking the audit was submitted already in 2000, two proposals were submitted in 2002. The Annual Programme 2002 consisted of 7 audits that were proposals made by ministries and local community bodies in 2002.

The submitters determined in Paragraph 2 of Article 25 of the Court of Audit Act (deputies and working bodies of the National Assembly, ministries and local community bodies) made 46 proposals for undertaking audits. When the Annual Programme for 2002 and 2003 was defined the Court of Audit included 23 proposals which were made by above mentioned submitters, that is 50 per cent of the received proposals.

The proposals for undertaking audits received in 2002 from working bodies of the National Assembly are presented in Table 2.

Table 2: Proposals for undertaking audits received in 2002

No.	Submitter	Description of the initiative
1	National Assembly - Commission for Budgetary and Other Public Finance Control	Business operation of the hospital dr. Franca Derganca in Šempeter pri Novi Gorici
2	National Assembly - Commission for Budgetary and Other Public Finance Control	Regularity audit of the Red Cross Slovenia for 1999, 2000 and 2001. Complete review of regularity of raising and granting loans by Red Cross Slovenia for the period from 1995 to 2002.
3	National Assembly - Commission for Budgetary and Other Public Finance Control	Regularity of business operation and implementation of tasks by National Tax Administration – in order to find out whether the Administration accounts for, records and exacts payment of taxes in line with regulations, whether their operations are effective and economic.
4	National Assembly - Commission for Budgetary and Other Public Finance Control	Regularity of recording investment projects or investments which were directly financed from the budget in 2002 and previous years
5	National Assembly - Commission for Budgetary and Other Public Finance Control	Complete audit of the motorway construction programme in Slovenia
6	National Assembly – Committee for Economy, Sub-committee for privatisation	Performance audit of the business operation of the Slovene Development Company since its establishment
7	National Assembly – Committee for Economy, Sub-committee for privatisation	Regularity and performance audit of the business system ELAN relating to used budget funds

In 15 cases out of 18 pre-audits, the full audits were introduced or the audits were included in the Annual Programme 2003. In 3 cases the audit procedure was completed in the pre-audit phase due to findings of the pre-audits and proposals of the Supreme State Auditors. Those cases were:

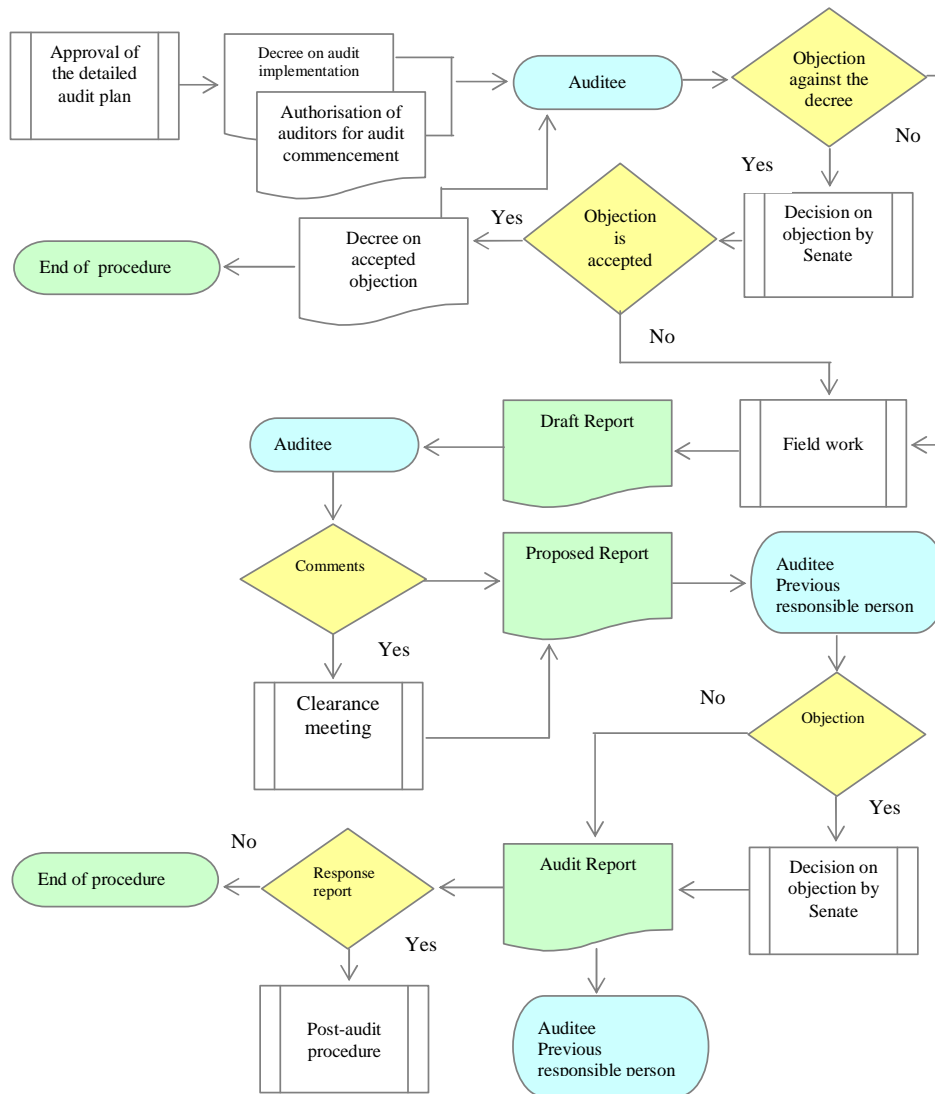
- auditors reviewed data on political party's financing which was carried out through Klander's Association from abroad,
- auditors collected data on waiting lists in hospitals and in specialistic departments and reviewed the possibility to carry out a performance audit and if such audit would be useful considering the results of the implemented analyses,
- auditors collected data on drug prescription in health centres and reviewed the possibility to carry out a performance audit and if such audit would be useful considering the results of the implemented analyses.

The time which was recorded under the pre-audit procedures was used also for the development of new auditing methods and techniques, mainly referred to audits of state budget, municipal budgets, transfers and public utilities. Special working groups which consisted of auditors as well as the president of the Court of Audit and advisors developed new audit approaches and tools; and monitored implementation of the pilot audits.

Results of the Audit Procedure

An audit begins with issuing a decree on audit implementation and it is completed when the audit report is published. In the audit procedure the auditees can challenge individual disclosures and present additional explanations on their activities or data if they believe that the audit did not consider them appropriately. The audit procedure is presented in detail in Figure 6.

Figure 6: Audit procedure



Out of the total of 98 audits implemented in line with the Annual Programme 2002, four audits were undertaken on the basis of the proposals made by the deputies and working bodies of the National Assembly.

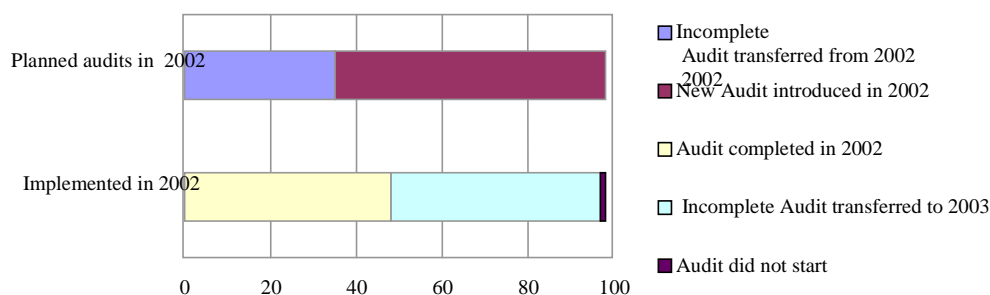
Table 3: Audits implemented on the basis of the National Assembly's proposals

No.	Proposal received	Audit title	Audit started	Audit completed
1	2000	Audit of the financial statements and the regularity of business operation of the Lukavci Home for the Disabled for 1999, 2000 and 2001	2002	2002
2	2001	Audit of the purchase and sale of electricity and transportation from 1998 to 2001, audit carried out at the public company Elektro – Slovenia d.o.o., Ljubljana	2001	2002
3	2002	Regularity audit of the Red Cross Slovenia – Association for 1999, 2000 and 2001	2002	2002
4	2002	Regularity audit of the National Tax Administration for 1999, 2000 and 2001	2002	Foreseen 2003

Other proposals received in 2002 from the National Assembly were considered when the Annual Programme 2003 was developed.

In 2002 the Court of Audit issued decrees on audit implementation for 61 audits. Not all audits from the Annual Programme 2002 were completed. 47 audits were completed and the audit reports were issued. The Court of Audit also reviewed the annual reports prepared by political parties, which is one of the specific tasks undertaken by the Court of Audit. The Annual Programme 2003 included 49 audits from the previous year. Four of them were introduced in 2000, therefore they were implemented in line with the old Court of Audit Act (Official Gazette of the Republic of Slovenia, No. 48/94). Two audits were introduced in 2001, 43 were introduced in 2002 and they were implemented in line with the new Court of Audit Act. Those audits, which were introduced in 2000 and were implemented under the old Act, were, in 2002, in the phase of the second-instance senate. Except for one of the audits for which the authorised Supreme State Auditor did not issue the preliminary report. One of the planned audits did not begin because the necessary conditions were not fulfilled. Figure 7 presents the number of planned and completed audits from the Annual Programme 2002.

Figure 7: The number of planned and completed audits referred to the Annual Programme 2002



In the period from 1995 to 2002 the Court of Audit issued a total of 537 audit reports, 47 of them were issued in 2002. The number of reports according to the types and years is presented in Table 4.

Table 4: The number of final audit reports according to types and years

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

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 reports (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 president of the first-instance senate or the President of the Court of Audit at the second-instance senate, have been replaced by a single audit report which is always signed by the Auditor General.

All the audits that were commenced under the previous Act proceeded in accordance with the procedures laid down by that Act. On that basis three audits were completed in 2002. 44 audits were implemented in accordance with the new Court of Audit Act. It is necessary to stress that the audit of the State budget, which was in the Annual Programme 2002 planned as a single audit, consists of 18 parts (audit of the financial statements of the state budget and of the implementation of the state budget and 17 audits of the implementation of the financial plan of the direct budget users).

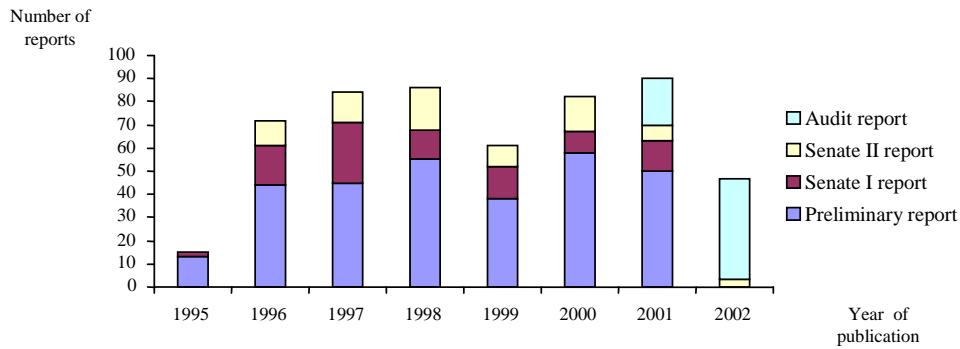
When comparing the number of issued audit reports by year it is necessary to consider changes or particularities, such as:

- auditing of municipalities changed from reviewing and auditing of individual segments to complete audits of the financial statements and compliance of municipal operation with legislation,
- the Annual Programme each year includes more demanding and extensive audits, while in the first few years of the Court's operation the scope of audits was smaller (focused only on pay; use of funds related to one or two budget lines),
- in the past the Annual Programme included many audits of the same type. Those audits demanded careful planning only the first time, afterwards the audit approach and the methods were used for all other audits,
- the Court of Audit handed over to the commercial auditors the implementation of only one audit of financial statements of public utility and one audit of two financial statements of the state budget in 2002. In the previous years, the audits of two biggest public institutions and state funds were implemented in co-operation with commercial audit companies. Therefore the Court could use its own resources for the implementation of other audits,
- the audits of the Pension and Disability Insurance Institute and the Health Insurance Institute for 2001 were for the first time implemented only by the auditors of the Court of Audit. In the previous years the audit of the financial

statements of both institutes was handed over to auditors of commercial audit companies. Therefore the auditors could, by using the same audit practice, implement four other audits instead of those two in 2002, considering the amount of time used (521 auditor-days in 2002).

Structure of the audit reports by type is presented in Figure 8.

Figure 8: Structure of audit reports by type



The structure of audit reports changed when the new Court of Audit Act was enacted. The audit reports issued under the new Act replaced the preliminary reports and senate reports. In that way the reporting became unified – the structure of audit reports as well as the way of reporting. The Court of Audit is trying to develop comprehensible reports and in that way improve the quality of its work.

Time Required for the Audit Implementation

The efficiency of auditing in 2002 compared to the previous year has improved. The number of calendar days from the day of commencing the audit to the day of publishing the audit report reduced by 15 days. The number of days is presented in Table 5.

Table 5: The number of calendar days from the day of commencement of the audit to the day of publishing the audit report

Activity	The average number of calendar days per audit			
	Under the old Court of Audit Act		Under the new Court of Audit Act	
	2001	2002	2001	2002
From the publication of the decree on audit implementation to the publication of audit report	343	1.010	228	213
From the publication of the preliminary report or the draft audit report to the publication of the final audit report	102	290	72	71

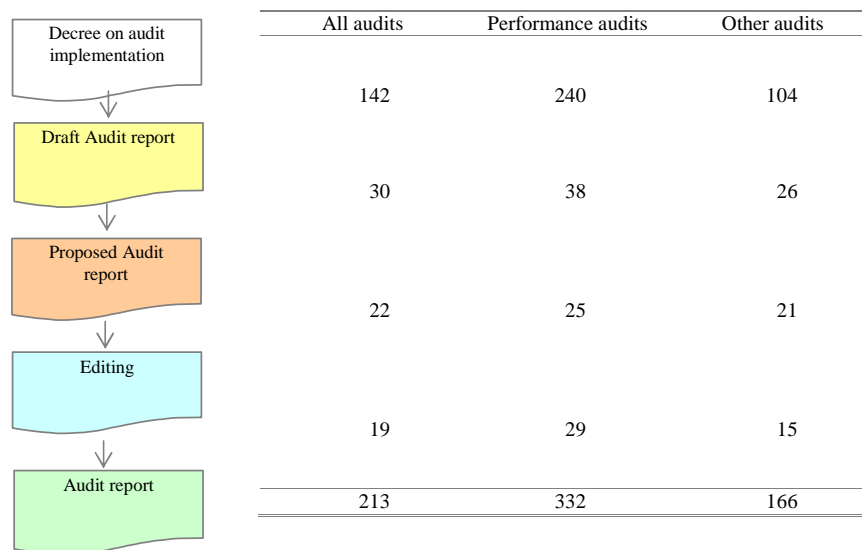
The data on audit implementation also includes the audit of the state budget for 2001 which was the most demanding audit in 2002. To implement this audit 1.911 auditor-days or 23,2 per cent of the total audit time were spent. Apart from the audit of the financial statements of the state budget, the auditors reviewed the compliance between the business operation and the legislation for 17 direct budget users. The audit described above examined 94,4 per cent of the expenditure of the state budget for 2001. The results of the audit are presented in detail on pages 36 and 37.

The comparison of audit activities under the old and the new Court of Audit Act shows that the audit implementation under the new Court of Audit Act is more efficient. On average the audits were implemented in a shorter period of time under the new Act. The period of time from issuing the decree on audit implementation to the issuing of the audit report consisted of 213 calendar days in 2002 that is for 7,5 per cent less than in the previous year. The shorter total period of time is a result of the quicker implementation of auditing procedures after the decree on audit implementation is issued and before the draft audit report is prepared. The auditors spent 142 calendar days (from issuing the decree to issuing the draft audit report) for those audits, which had their audit reports issued in accordance with the new Court of Audit Act in 2002. For those audits where the draft audit reports were issued in 2002, the auditors spent 131 calendar days. This analysis shows that the time spent for audit implementation has reduced. It is necessary to stress that the audits completed in 2002 but implemented in line with the old Act used on average 342 calendar days (from issuing the decree to issuing the draft report).

The procedures of reviewing an audit report before its publication required some more time. These procedures were introduced by the Court of Audit in order to assure the highest possible quality of the audit reports. The procedure is called editing and it is implemented by a three-member board. Their key task is to review each report before its publication. The editorial board examines whether auditing standards were followed, accounting standards and guides were correctly used, legislation was followed and whether grammatical rules were applied. The procedure of editing and issuing audit reports which were published in 2002 lasted on average 19 calendar days per audit report.

The performance audits increased the average number of days per audit completed in 2002. The performance audits require more time for the implementation than other audits. The average number of calendar days needed for the audit implementation – separately for performance and other audits and for all audits together is presented in Figure 9.

Figure 9: The process of auditing for completed audits (the average number of calendar days per audit)



Considering the developments in auditing and results of the analysis of the time consumption in individual audit phases, it can be expected that the time consumption shall be reduced in future (time which passes from the issuing the decree on audit implementation to the publication of an audit report). The time should be reduced mainly in the phase of preparation the final audit report and in the phase of editing the audit report.

The period of time from the issuing of a draft audit report to the issuing of a proposed audit report includes clearance meetings. At the clearance meetings an auditee may: challenge individual disclosures in the draft audit report and present additional explanations on their business operation. There were 38 clearance meetings related to the audits carried out in 2002.

The period of time from issuing the draft audit report to the preparation of the audit report for editing includes the Senate of the Court of Audit which decides on any disputed disclosure. In 2002 auditees filed objections to disclosures in 20 cases of the proposed audit reports. In 2002 the Senate of the Court of Audit assembled 16 times to discuss objections filed by the auditees which related to the disputed disclosures in the 17 audit reports.

Through the activities introduced in order to improve the efficiency and the quality of work, the Court of Audit is trying to ensure that:

- the auditees, deputies and the public understand the audit reports, consider the audit findings and follow the recommendations,

- the authorised bodies of the auditee, the Government and the National Assembly implement the recommendations and improve their business operation and the use of public funds,
- the users of audit reports accept an external audit as a type of assistance in their business operation.

In 2002 the Court of Audit used 8.227 auditor-days for the audit implementation. The main part of resources (6.044 auditor-days or 73,5 per cent of the available time) was earmarked for those audits which are defined under Paragraph 4 of Article 25 of the Court of Audit Act. Most of the time was spent for the implementation of the mandatory audits: audit of the state budget (1.911 auditor-days), regularity audits of the Health Insurance Institute of Slovenia (272 auditor-days) and the Pension and Disability Insurance Institute of Slovenia (271 auditor-days).

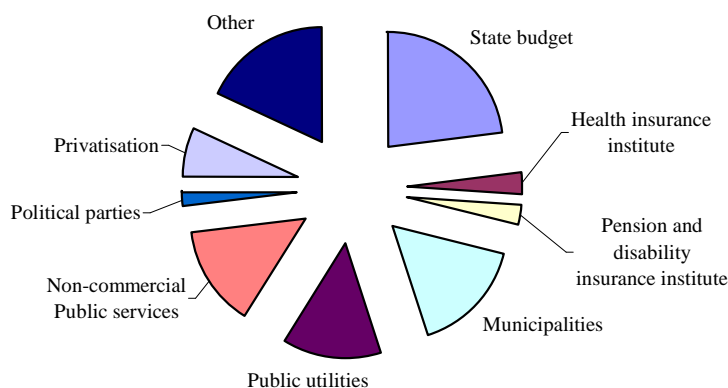
The above mentioned Article also defines that the Court of Audit must every year audit: the regularity of business operation of a suitable number of urban and other municipalities; business operation of a suitable number of public utilities providers; business operation of a suitable number of providers of non-commercial public services. In 2002 the Court of Audit implemented audits of 19 municipalities, five of them were urban municipalities; of 8 public utilities providers and 15 providers of non-commercial public services. For the implementation of the audits of municipalities the Court of Audit used in total 1.307 auditor-days or 15,9 per cent of the time earmarked for auditing in 2002.

In 2002 an important part of resources of the Court of Audit was planned for auditing of public utilities providers and providers of non-commercial public services (in total 27,7 per cent).

The Court of Audit each year audits annual reports of political parties in accordance with the Article 24 of the Political Parties Act. At the end of 2002 the Court of Audit undertook the audit of the reports of the organisers of the election campaigns which is prescribed as a statutory duty for the Court of Audit by the Election Campaigns Act. For the implementation of those audits 132 auditor-days were used.

In 2002 the Court of Audit spent 6.233 auditor-days or 75,8 per cent of the annual resources for all tasks implemented under the Court of Audit Act, the Political Parties Act and the Election Campaigns Act and Article 17 of the Slovene Development Company Act. The structure of used time for auditing of the key auditees is shown in Figure 10.

Figure 10: Structure of used time for auditing in line with auditees or subjects



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

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

Out of the total number of 47 audits and reviews of political parties' annual reports which were completed in 2002, 18 audits or 38,3 per cent belonged to the mandatory audits, the rest of them were audits which were independently selected by the Court of Audit.

Compared to 2001, when the Court of Audit spent more than 80 per cent of its resources for the implementation of audits under the old Court of Audit Act and other Acts, the Court of Audit spent 76 per cents of the available time for that type of audits in 2002.

The audits, which are selected by the Court of Audit independently, are usually performance audits and audits of compliance between business operation and regulations. Those audits were implemented on the area of public procurement, business operation of courts and privatisation of state assets.

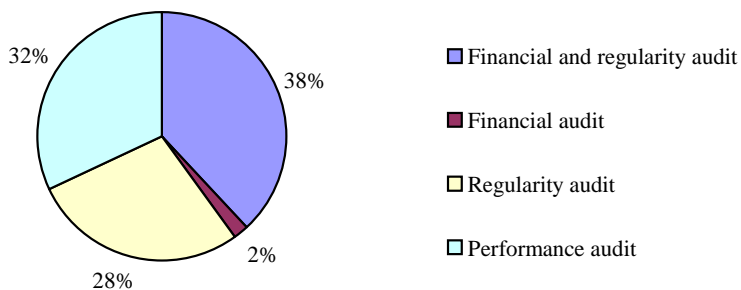
Types of Audits

Audits can be ranked according to the objectives set by the auditors. In 2002 the following audit objectives were defined:

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

The Court of Audit mainly implements audits where two opinions are expressed: an opinion on financial statements and an opinion on regularity. In 2002 the auditors reviewed regularity of business operation in all audits but one. The review of regularity was either included in the individual regularity audit or joint with the review of financial statements or with a performance audit. All types of audits which were completed and the audit reports were issued in 2002 are presented in Figure 11.

Figure 11: Types of audits in line with the audit objectives



Out of 47 audits completed in 2002, 18 audits or 38,3 per cent belonged to the group of audits with two audit objectives: the opinion was expressed on financial statements and regularity. In 2001 there were 66,7 per cent of such audits. One audit report related only to the review of the financial statements. While in 2001 there were 10 per cent of such audit reports.

The Annual Programme defined implementation of 10 performance audits. The purpose of the performance audits is to answer questions about economy, efficiency and effectiveness of the use of public funds. And to review whether there are procedures in place to monitor and control efficiency, effectiveness and economy of business operation. The scope of performance audits is wider and require preliminary studies which include data analyses covering a longer period of time. In 2002 fifteen performance audits were completed, but most of the audit work was implemented in 2001. This type of audit represents 32 per cent of all audit reports. Compared to the previous year, in 2002, there were more performance audit reports issued. In 2002 thirteen performance audit reports were issued or 12 per cent of all issued reports. The privatisation audits are included in the number. In 2002 five privatisation audits of state assets were introduced, four of them were completed.

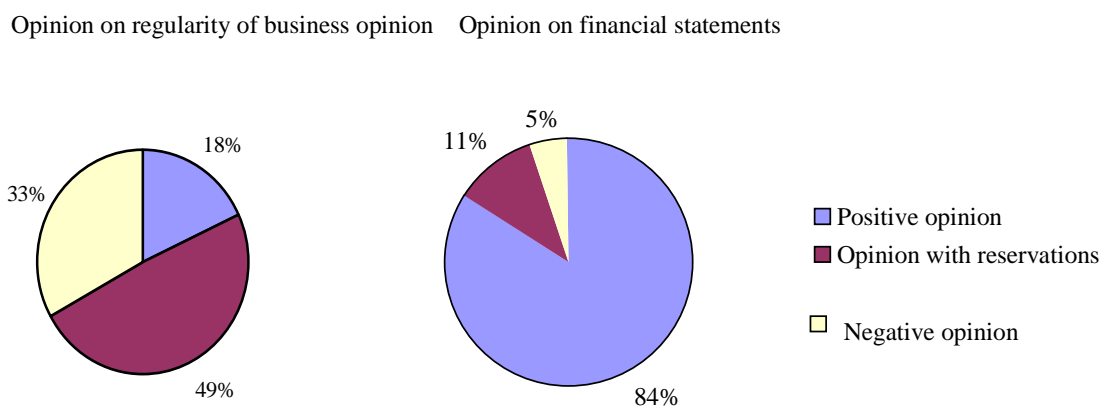
One of the audit objectives of the Annual Programme of the Court was to implement appropriate number of audits of municipalities. There was only one objective set for audits of municipalities in the past. The objective was to express an opinion on regularity of business operation. In the middle of 2002 the Court of Audit decided to introduce integral audits of municipalities. The audits included the review of financial statements of municipal budget, data from the balance sheet and the regularity of the use of budget funds.. Due to these audit objectives the audit implementation required more time than in the past. In 2002 the auditors undertook 19 audits of the regularity of business operation of municipalities and issued 12 audit reports, four of them were in line with the new audit approach.

Opinions Issued in Audit Reports

In the audit reports, where the audit objective was to express an opinion on the financial statements or the regularity of business operation, there was a total of 52 opinions. The opinions in the 15 performance audit reports were descriptive, that is the assessments of economy, efficiency and effectiveness; in some cases also an opinion on the regularity of business operation was issued.

The most frequent type of opinion expressed was a positive opinion. In 2002 there were, in total, 22 positive opinions or 42 per cent of all opinions expressed in the audit reports. In 2001 only 14 per cent of all opinions expressed were positive. The comparison shows the positive tendency in the preparation of the annual reports and the regularity of business operation of public funds users. Figure 12 shows the audit opinions expressed.

Figure 12: Type of expressed opinions in line with audit objectives



There were 42 audit reports which included at least one audit opinion with reservations or a negative opinion. That means the Court of Audit issued only five audit reports with positive opinions (11 per cent). The most common reasons for an opinion with reservations or a negative opinion were violations of law or regulations that define financing of the public funds users, mainly relating to public procurement and pay.

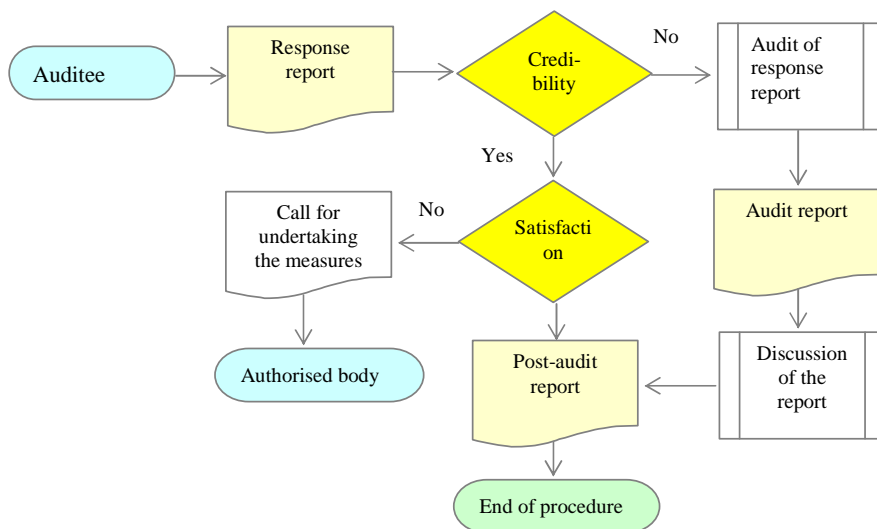
When auditing financial statements, the Court of Audit found that there were fewer errors than there were irregularities relating to compliance of auditees' business operation with the regulations. The auditees were willing to correct errors during the audit implementation, therefore the opinions on audited financial statements were positive.

Results of the Post-audit Procedure

The post-audit procedure which is a part of the audit process, includes the monitoring of audit impacts and the implementation of audit recommendations. The post-audit procedure starts after the audit is completed, in the form of a proposal to take legal action on the basis that a legal offence has been committed. Monitoring of the follow-up is necessary for improving business operation of the public funds users, for planning future audits, for assessments of Court's efficiency and effectiveness and for promotion of best practice. The post-audit procedure also includes reports on the remedial actions taken with regard to the disclosed irregularities and inefficiencies (response report). Each audit report defines whether the auditee is obliged to submit the response report or not. The demand to submit the response report includes the instructions: time-limit for delivering it to the Court of Audit, description of irregularities or inefficiencies which demand correction measures and notice on sanctions if provisions of Article 29 of the Court of Audit Act are violated.

The procedure for monitoring remedial measures referred to disclosed irregularities and inefficiencies is presented in Figure 13.

Figure 13: Post-audit procedure



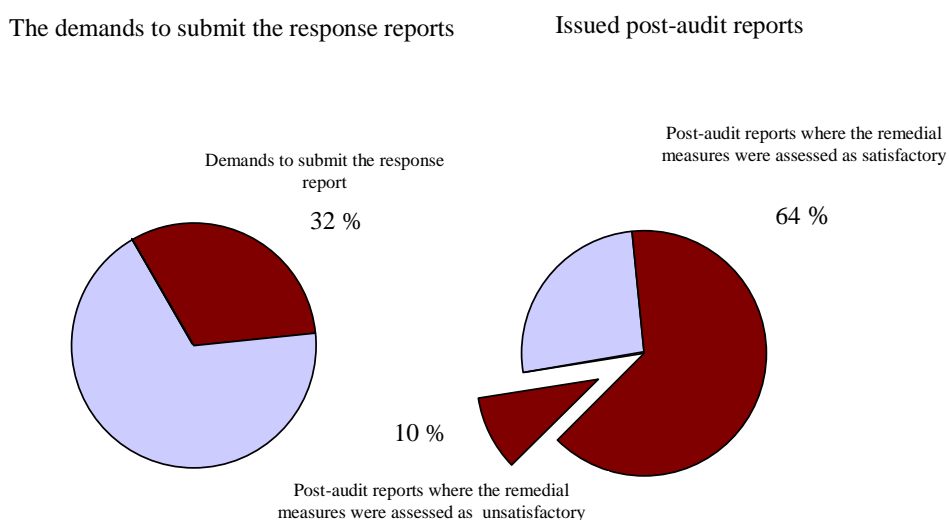
Fifteen audit reports (or 31,9 per cent of all reports) issued in 2002 included a demand to submit a response report.

On the basis of the audit reports issued in 2002 under the new Court of Audit Act, the Court of Audit received, in total, 31 response reports, tested their credibility and assessed the relevance of the remedial measures referred to the disclosed irregularities and inefficiencies. The results of the tests and the assessments are presented in the post-audit reports. In 2002 the Court of Audit issued 23 post-audit reports. In all cases but three, the Court of Audit assessed the presented remedial measures as satisfactory.

In the audit report on final account of the state budget for 2001 the Court of Audit expressed the demand that the audited public funds users within 90 days submit the response reports on the remedial actions taken with regard to the disclosed irregularities and inefficiencies. The Court of Audit tested and assessed their credibility. The response report of the Government Centre for Informatics was considered unsatisfactory. The Court of Audit used the option prescribed by Article 29 (paragraph 4) of the Court of Audit Act and introduced a new audit to test the authenticity of the statements in the response report. Therefore the completion of the post-audit report was transferred to the year 2003.

Figure 14 shows the percentage of demands to submit a response report and the percentage of post-audit reports that were issued with the assessment of adopted remedial measures.

Figure 14: The percentage of demands to submit a response report and the percentage of post-audit reports that were issued



The auditees reported the correction measures relating to the 77 different irregularities and inefficiencies that were presented in the response report. Most of the correction measures related to the improvements of public procurement procedures and strengthening of internal control systems (38 per cents) and to remedy the irregularities relating to employment, allocating pay and other bonuses to employees (21 per cent). Other correction measures dealt with the irregularities relating to recording and presenting of transactions, allocation of subsidies and other state aids, settling and acquiring liabilities.

The Court of Audit assessed the correction measures as unsatisfactory at the following three auditees:

- *The Government of the Republic of Slovenia* – in the response report the Government did not present the approval of the annual reports of the Agency for payments for 1998 and 1999, as it is prescribed by the Agency for payments Act, Agency for auditing privatisation Act. The Agency for payments was abolished in 2002 but that is not a reason for not reviewing the annual reports of the Agency. Only one of five correction measures adopted by the Government was assessed as inappropriate.
- The Ministry for Foreign Affairs did not adopt remedial measures for the irregularities and did not present satisfactory remedial actions relating to paying special assignments, contract wages, bonuses and reimbursements of costs and to purchase of official clothing. In addition the Ministry did not introduce activities relating to the design of a new internal control system or the strengthening of the existing internal control systems. In that way the Ministry would be able to detect or prevent irregularities relating to public procurement, accounting for pay and other personnel allowances and assure the appropriate use of public funds. The Ministry adopted instructions for public procurement of smaller value items. The instructions define procedures relating to public procurement. The Court of Audit assessed that instructions were not sufficient for correcting revealed irregularities and not enough for preventing such irregularities in the future.

The Court of Audit assessed that the remedial actions were not satisfactory and that the Ministry violated the obligation of operational efficiency. The Court of Audit demanded that the Ministry deliver a response report relating to the regularity audit of the financial plan for 2001. Possible actions due to violation of operational efficiency were postponed until the post-audit procedure is completed, that is until the response report is delivered.

- *Municipality Velika Polana*: the mayor of the Municipality summoned a meeting of the Municipal council where the final accounts of the municipal budget for 2000 and 2001 were to be discussed, but the mayor stopped the meeting without any substantial reason and left the meeting.

The Court of Audit assessed that the Municipality Velika Polana violated the operational efficiency, therefore the Court of Audit in line with paragraph 7, Article 29 of the Court of Audit Act asked the Ministry of Interior and the Ministry of Finance to take action against the Municipality Velika Polana.

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

In assessing the correcting measures of disclosed irregularities and inefficiencies, the Court of Audit encounters many problems since it is a relatively new procedure. The auditors lack experience in assessing the correction activities, as well as the auditees who have to report on them. The auditees face difficulties in selecting the appropriate

remedial activities relating to disclosed irregularities and inefficiencies which they have to be included in the response reports. Usually the auditees introduce the correction measures as a formal procedure but not on the operational level. The appropriate and satisfactory measures are achieved if the reasons for irregularities and inefficiencies are analysed. The correction measures should be based on the results of the analyses.

Proposals for Commencement of Proceedings against Violations and Motions for Prosecution

In 2002 the Court of Audit filed three proposals for the commencement of proceedings against violations and filed five motions for prosecution due to disclosed irregularities.

In 2002 the Court of Audit filed three proposals to the Misdemeanour Judge due to the following disclosed irregularities:

- *Violation of the provisions of the Pay in public institutions, state bodies, local communities bodies Act, the Act on financing municipalities, the Public finance Act – in two municipalities,*
- *Violation of the provisions of the Accounting Act – in one agency.*

The Misdemeanour Judge did not adopt any decisions relating to the above proposals.

Out of 10 proposals filed in 2001, the Misdemeanour Judge issued decisions relating to four cases, the rest of the decisions were not adopted or presented to the Court of Audit in 2002.

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

- *abuse of the official position or authority in a public procurement process,*
- *unjustified acceptance of gifts in a public procurement process at one public utility,*
- *forgery or destruction of the official document, book or official paper in one Municipality,*
- *abuse of the official position or authority in granting loans in one Municipality,*
- *abuse of the official position or authority and other violations in business operation of one association.*

Quality Control over the Implementation of Audits

Internal Control

One of the objectives set by the Court of Audit in 2002 was to improve the quality of its work. Therefore the tasks, defined by the Court of Audit Act and other Acts, are implemented with due care and respect for professional auditing standards and best practice.

The new Court of Audit Act introduced changes in the organisational structure as well as a new framework of management, which includes control over the quality of auditing and assures compliance with the legislation, professional standards and instructions adopted by the President of the Court of Audit.

The internal control is implemented in the following ways:

- with continuous reviews of each activity in the audit process. Those reviews include examining the appropriateness and correctness of detailed audit plans and draft audit reports, proposed audit reports and final audit reports;
- with the, so called, on the spot examinations, which are carried out by one of the advisors or experienced auditors. They review an audit as a whole or a phase of the audit process, if a problem occurs during the audit implementation or if there is a doubt about the quality of audit results;
- with monitoring of the implementation of the Annual Programme through regular monthly reports. Those reports describe the status of the undertaken audits, propose other activities if the audit is not implemented in accordance with the plan.

In 2002 only one on the spot examination was carried out in the phase of audit planning, two of them in the phase of substantive testing and one of them in the phase of reporting. The regular monitoring of audit implementation under the Annual Programme found out that in 3 cases the internal rules were not followed. Once the decree for audit implementation was issued eventhough the detailed audit plan was not approved, twice the clearance meetings were carried out in contravention of valid rules.

External Control

The control over the ability of the Court of Audit to implement the activities of a supreme audit institution is carried out by the European Commission. The European Commission each year carefully reviews preparations for accession to the EU in the area of financial control. The representatives of the Commission visited the Court of Audit twice in 2002, they became acquainted with the work and the development of the Court. The Regular report for 2002 of the European Commission (published 9 October 2002) presented the assessment that the new Court of Audit Act assured appropriate functioning of the state audit, but it is necessary to complete the audit manual as soon as possible. The Commission estimated that in Slovenia an important development in internal and external control systems was achieved.

Even though paragraph 2 of Article 31 of the Court of Audit Act defines that the financial statements of the Court of Audit shall be audited by an auditing company,

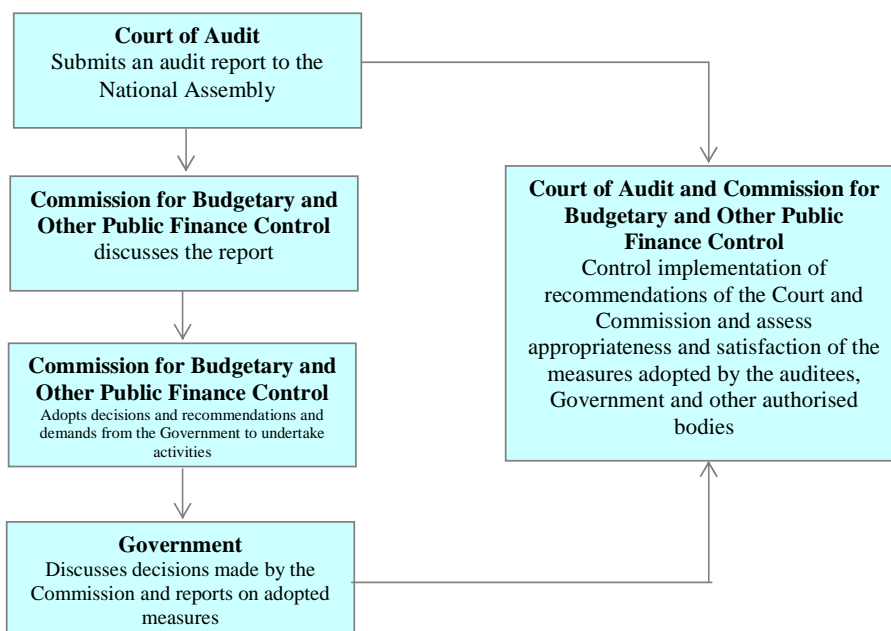
selected by the National Assembly upon the proposal of its working body responsible for budgetary and other public finance control, the financial statements of the Court of Audit were not audited in 2002. Nevertheless the Court of Audit each year carries out an audit of its financial statements. The audit is undertaken by an auditor of the Court of Audit who is appointed as an internal auditor by the President.

Providing Audit Reports to the National Assembly

The National Assembly should be the key user of the services provided by the Court of Audit. The Supreme Audit Institutions, through their work, support the activities of parliaments in the area of control over the state budget and other public funds. Therefore state auditors should have close co-operation with the working bodies of the National Assembly.

Most of the audit reports which are delivered to the National Assembly in line with the point 3 of Paragraph 16 of Article 28 of the Court of Audit Act, should be discussed by the Commission for Budgetary and Other Public Finance Control. The process of the review of the audit reports should be carried out as it is presented in Figure 15.

Figure 15: The process of the review of the audit reports



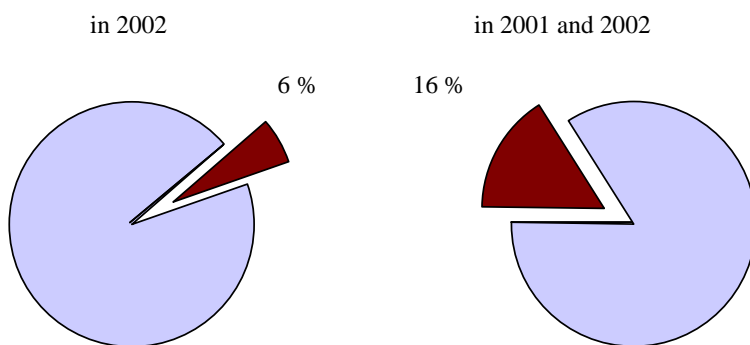
After the National Assembly and the Government discuss the audit reports, the process of reviewing the audit reports is completed. In that way the circle of all participants who are responsible before public for the regularity of the use of public funds is concluded.

In 2002 the Court of Audit delivered 47 audit reports to the National Assembly. The Commission for Budgetary and Other Public Finance Control discussed at seven regular meetings the following audit reports:

- audit report on final account of the state budget for 1999, 2000 and 2001, including audits of implementation of the financial plans of some budget users,
- audit report on regularity of business operation of the Red Cross Slovenia for 1999, 2000 and 2001,
- audit report on business operation of the public utility Eles – Slovenija d.o.o., Ljubljana for the period from 1998 to 2001,
- final report on performance audits of business operation of the State prosecutors for the period from 1997 to 1999.

In 2001 and 2002 the Court of Audit delivered 137 audit reports and two joint reports to the National Assembly. The Commission for Budgetary and Other Public Finance Control, which is managed by Andrej Bajuk (the National Assembly appointed him on 27 March 2001), discussed 20 audit reports and both joint reports in the past two years, or 15,8 per cent of all audit reports delivered to the National Assembly by the Court of Audit. The percentages of audit reports that were discussed by the Commission for Budgetary and Other Public Finance Control are presented in Figure 16.

Figure 16: The percentages of audit reports discussed by the Commission for Budgetary and Other Public Finance Control



The Committee for Economy, the Sub-committee for privatisation was another working body of the National Assembly who discussed the audit reports in 2002 (the audit report on financial statements and regularity of business operation of the Slovene Development Company for 1999 and 2000).

Consulting the Users of Public Funds

One of the important tasks of the Court of Audit is to consult the users of public funds. The Court of Audit considers that consulting the users of public funds is a preventive activity, since the Court of Audit in that way directs the users of public funds towards accurate and proper business operation and more efficient and effective internal control operations as well as better financial management. The advice is not only an instruction for the responsible persons (ministers, management, principals and other directors) on how to improve the circumstances and results of business operation, but it is also intended to assist internal auditors and other control bodies (like supervisory council at municipalities, supervisory board at the public utilities and commercial companies, where the State or the local government own the majority share, at public funds, public agencies and other).

The Court of Audit consults the users of public funds in different ways: it provides recommendations at the time of performing the audits and in the audit reports, it may also express opinions on public finance issues.

Direct advising to the auditees is carried out by the Court of Audit during field work and at clearance meetings when the auditee's representatives and the auditors agree upon the findings referred to the performance or regularity of business operation as presented in the draft audit report.

The Court of Audit can provide advice in any audit report, joint audit report or annual report. The key issues are findings of the Court of Audit and auditor's judgement of the regular and efficient use of public funds. That information is important not only for the user of public funds whose activities were audited, but also for the National Assembly, the Government and other users of public funds.

The Members, the Supreme State Auditors and the Senate of the Court of Audit can provide advice to the users of public funds. An opinion about public finance issues made by the Senate is binding for the Court of Audit. When an opinion about public finance issues is based on previous audits, the opinion can be presented by any Member of the Court of Audit or the Supreme State Auditor. Nevertheless they can provide their own professional opinion about public finance issues with an explanation that the Court of Audit did not define the opinion and that it is not binding for the Court of Audit.

In 2002 the Members and the Supreme State Auditors provided advice to the users of public funds on the basis of their requests.

Presentation of the Most Important Audits

Audit of the Business Operation of the State

The most important audit implemented by the Court of Audit is the audit of the regularity of the implementation of the State budget. It is a mandatory audit which is defined in point 1 of paragraph 4 of Article 25 of the Court of Audit Act. It must be implemented every year, the audit report must be delivered to the National Assembly by 1 October as it is prescribed by Article 97 of the Public Finance Act.

The Court of Audit undertakes this audit in order to review the regularity of business operations of the State. Through the audit report the Court each year informs the public and the National Assembly whether public funds were properly recorded and used. Each year the audit is supplemented according to the changes due to the reform of public finance. In 2001 the Court of Audit for the first time reviewed the reports of the budget users on achieved results and objectives. In that way a review of the functional and programme budget classification was introduced separately from the economic classification.

The Court of Audit reviews the implementation of the common and specific part of the budget by examining the financial statements, the regularity of budget implementation and the regularity of the implementation of financial plans for each budget user. The Court of Audit reviewed the use of budget funds in 2001 at 17 direct budget users: all ministries, the Government Centre for Informatics, the National Assembly and the Supreme Court. The common part of the budget was reviewed in the following way: the auditors examined the regularity of recordings of state budget revenues and expenditure, of lending and repayments and of borrowings and of amortisation of debt. In the balance sheet of the state budget revenues and expenditure the auditors reviewed: current revenues, capital revenues, grants and transferred revenues. The regularity of the recorded expenditure was reviewed in the following way: expenditures were classified into three segments, namely, pay and other personnel expenditures, part of current and capital expenditures, current and capital transfers. The auditors examined the lending and repayments by reviewing the regularity of presenting the repayments of loans and sales of equities, lending and acquisition of equities. The auditors reviewed the borrowing and amortisation of debt by checking the regularity of presenting the income from the State's incurred debts and expenditures for payments of principal of the debt. The Court of Audit reviewed the business operation of the budget users, i.e. in the total of 95 per cent of the total State budget.

Due to the fact that the audit was quite extensive, the Court of Audit implemented pre-audits. The purpose of the pre-audits was to review the reliability of the internal control systems and to define the scope of the substantive testing.

The Court of Audit carried out substantive testing at selected auditees. The substantive testing related to: pay, other personnel bonuses, expenditures (current and capital) and transfers (current and capital). On the basis of sampling, 4.500 payments were selected

for testing. It was found that the implementation of the state budget for 2001 was not in accordance with the legislation. Most of the disclosed irregularities related to the granting and allocating of transfers payments.

The irregularities relating to personnel expenditures were: irregularities in employing, allocating staff to work posts, defining basic pay or bonuses. The irregularities relating to current and capital expenditures occurred: in public procurement procedures due to incorrectly published invitations to tenders, measures used for selection of tenders; in public procurement undertaken without public invitations for tenders; in public procurement of smaller value items. The irregularities relating to transfers concerned the allocation of subsidies without public invitations, to incorrectly defined and selection criteria used, to contracts which were not in line with the conditions in the public invitation.

The most important irregularities, which were identified by the Court of Audit in the audit on the financial statements and the implementation of the state budget, are the following:

- irregularities relating to public procurement:
 - in the process of public invitation for bids,
 - in the process without public invitation for bids,
 - in the process relating to small value items;
- irregularities referred to the use of the earmarked funds;
- irregularities referred to the accuracy of expenditure.

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On the basis of an analysis of the irregularities the Court of Audit expressed a positive opinion on the financial statements of the budget for 2001 and a negative opinion on the regularity of the implementation of the state budget for 2001. The Court of Audit expressed opinions on the implementation of the financial plans for each auditee separately. Namely, 5 positive opinions, 6 opinions with reservation and 6 negative opinions. It was also found that the annual financial report did not include a balance sheet, therefore the cash balance is not presented clearly and completely.

The Court of Audit also expressed an assessment of the auditees' reports on the achieved objectives and results in 2001. None of the auditees presented complete reports, therefore it was not clear from them whether the auditees and the state operated effectively.

Audit of Business Operation of the Health Insurance Institute

In 2002 the Court of Audit completed two audits of the Institute's business operation, namely for 2000 and 2001. Besides testing the regularity and completeness of the financial statements, the audit, relating to the year 2000, focused on the review of the implementation of the recommendations defined by the Court of Audit in the previous years. The audit, relating to 2001, was intended to be an integral review of the

regularity of business operation of the Institute: the implementation of the financial plan, the allocation of pay and other bonuses for the employees, current expenditures, current transfers and capital expenditures.

The Court of Audit expressed an opinion with reservations on *the financial statements for 2000*, due to errors in recording and presenting the short-term liabilities. In order to be able to prevent disclosed errors and weaknesses in reporting, the Court of Audit proposed changes to the system and to the legislation which could provide conditions for timely and correct preparation of the annual report.

The Court of Audit expressed an opinion on *the regularity of business operation in 2001* which stated that the Institute's operations were not in line with the relevant legislation. It was found that the Institute did not act in compliance with legislation in several cases: after 1996 did not check the prices of the medical, technical instruments on the market, even though the total purchase value exceeded the limit, the suppliers were not selected by public procurement procedure. The Court of Audit assessed that irregularities occurred mainly because of weaknesses in the internal control system, therefore the Court demanded from the management that it improve the control environment and the internal audit service.

Audit of Business Operation of the Pension and Disability Insurance Institute

The audit of the regularity of business operation of the Pension and Disability Insurance Institute for 2000 was undertaken in co-operation with external auditors. The audit subjects were the financial statements, information system and data base.

The audit objectives were:

- to review the credibility of the financial statements of the Institute for 2000,
- to review the compliance of income and expenditures with the purposes defined in the financial plan of the Institute,
- to review the regularity of the presented results in the business report of the Institute,
- to review the existence and operation of the internal control system, the regularity relating to approving payments to beneficiaries,
- to test the availability, safety, integrity, maintenance of the information system and its compliance with the legislation relating to information systems and data bases.

On the basis of the results of the audit, the Court of Audit expressed an audit opinion on Institute's business operation in three parts: separately on the financial statements, on the regularity of business operation and on the information system and data base.

The financial statements of the Institute represent true and complete picture of the financial situation on 31 December 2000 and of the results of the business operation for the year which ended on 31 December 2000. The financial statements comply with

the Accounting Act. Eventhough the audit opinion was positive the Court of Audit stressed that there is a high negative value of the Institute's fund (balance sheet on 31 December 2000) as a consequence of the unsettled expenditures from previous years and short term incurred debts.

The Court of Audit verified the *compliance between the Institute's business operation and the relevant legislation*. Without expressing any reservation, the Court of Audit pointed out that the Institute provided the funds for pensions by taking loans at many banks at the end of 2000.

On the basis of the findings relating to the information system and data base for 2000, the Court of Audit expressed the opinion which verified the management reports as true and fair.

Audits of Business Operation of Municipalities

The Court of Audit considers auditing the state and municipal budgets as the most important tasks of the external audit practice. When auditing municipalities the auditors use the same audit methods, techniques and measures for evaluating the findings as when undertaking audits of the state budget. In the following paragraphs the most common or the most important errors and irregularities from the audit reports on municipalities (issued in 2001) are presented.

When reviewing procedures of *adopting the municipal budget and the annual financial report* the Court of Audit found most irregularities in the Municipality Velika Polana. The mayor did not present a proposal for the budget to the municipal council, neither did he ensure that the annual financial report was adopted. The audit showed that the financial statements did not present a true and complete cash balance or position relating to the liabilities. The most common errors that were disclosed in many municipalities were related to the classification of expenditures into budget lines and accounts; to the recording and presenting of revenues and expenditures in the budget year.

When testing the regularity of the business operation of the municipality Velika Polana in the period of the so called *temporary financing*, it was found that the decree on extension of that period was not adopted by the municipal council but by the mayor. Apart from that the municipality used more funds than allowed by the provisions of the Public Finance Act.

The reviews of some data from the balance sheet showed that there were several cases of incomplete records of the investments made in communal infrastructure.

The Court of Audit pays special attention to *the regularity of the budget implementation*. It is considered one of the key audit objectives. The following irregularities were found by testing the regularity of business operations:

Implementation of the financial plan

- Expenditures were higher than the amount defined in the budget; the municipalities used more funds for investments than planned in the budget; municipalities did not earmark enough funds to settle the liabilities from previous years (eight municipalities),
- Reallocation of funds in the budget was implemented without appropriate legal documents (one municipality).

Revenue

- In one municipality the decision on the land rent on use of building grounds was not adopted on time; in another municipality the rent was paid to the public utility and not to the municipality,
- One municipality did not have a programme for sale of assets, the prices were not defined on the basis of official evaluation of assets.

Employment, pay and bonuses

- Employees who did not fulfil all conditions were allocated to work posts (years of work experience, education) - five municipalities,
- Six municipalities incorrectly defined the basic pay quotient,
- Seven municipalities allocated bonuses to the employees unjustifiably,
- One municipality incorrectly accounted for and paid reimbursements for business trips, furthermore there were no evidence of those events or the data were not correct.

Public procurement

- There was no public invitation for tenders, eventhough the value exceeded the allowed limit (four municipalities),
- The procurement documentation did not include an explanation of the measurements or criteria and the methodology for their use (one municipality),
- During the tender selection procedure a municipality changed the conditions and did not inform all tenders thereof (one municipality),
- In analysing bids the municipalities did not consider all measures which were presented in the public invitation (two municipalities),
- One municipality did not make a contract with the tenderer, eventhough the contract was necessary,
- The service provider was paid more than defined in the contract, but there was no annex to the contract for additional work to be provided (two municipalities),
- There was no concession contract made between the municipality and public service provider which was not public institute (three municipalities),
- When purchasing items of smaller value the municipalities did not follow their internal rules (four municipalities).

Transfers

- The municipalities did not make contracts with beneficiaries or the contracts were not made on time,
- Subsidies to agriculture were allocated incorrectly,
- Individuals were allocated subsidies on the basis of public invitation which did not meet the selection criteria nor the amount that was earmarked for that purpose in the budget,
- Requests for subsidies were not analysed correctly, the funds were allocated on the basis of incomplete requests or requests which were delivered after the final dates

for submission which were published in the public invitations, funds were allocated for purposes which were not defined in the public invitation.

Liabilities

A municipality can incur liabilities only in line with the funds earmarked in the budget, that rule was violated many times. Municipalities incurred higher amounts of liabilities than defined in the budget; or they incurred liabilities for the following year's debt without any legal authority. Most of all the municipalities incurred liabilities in respect of investments before the funds were planned or approved in the budget (five municipalities).

Incurring debts

The most common irregularity relating to incurring debts was: exceeding the amounts allowed. There were cases where municipalities incurred debts before completing the legal and financial relations to the newly established municipalities.

Granting loans

The municipalities should be protect investments by directing funds to financial institutions. In one municipality the mayor approved granting loans to himself and another physical person.

Financing local communities

In one municipality financing of local communities was not based on a municipal decree or other legal basis, which define financial management. In another municipality the mayor defined measurements for the allocation of funds to the local communities, eventhough he did not have the authority for doing that.

Financing political parties

The Municipalities Dobrova – Polhov Gradec and Mozirje allocated funds from the budget to political parties in the amounts which exceeded the allowed limit.

Publishing journals

In the Municipality Dobrova – Polhov Gradec there were irregularities relating to the publishing of a journal (like: an editorial board was not appointed, there were differences in the number of paid and the number of printed issues).

Regularity Audits of the Public Utilities

Regularity and Performance Audit of Eles for the Period from 1998 to 2001

In 2002 the Court of Audit completed a regularity and performance audit of the public utility Elektro – Slovenia, Ljubljana (herein after Eles) for the period from 1998 to 2001, which was included in the Annual Programme 2001 on the proposal of the National Assembly.

The audit examined the business operation of Eles and found that Eles purchased 97 per cent of all electricity and sold to the domestic customers 93 per cent of the available electricity in the period from 1 January 1998 to 30 April 2001. On the basis of the assessment that there were no serious risks associated with electricity trading on the domestic market, the auditors focused on the regularity and performance of the business operation with foreign countries. The audit included the business operation of Eles with foreign countries in the period from 1 January 1998 to 30 June 2001 with the following scope: leasing of power, import and export of electricity, trading with electricity, leasing out transporting ways. The audit reviewed contracts made, issued and received invoices, bookkeeping, business documentation, data relating to the daily electricity exchange with foreign countries, entry / exit lines, currencies, quantities in MWh, costs, values and exchange time.

The results of the audit enabled the Court of Audit to express an audit opinion on the performance and the regularity of business operation with foreign countries in the period from 1998 to 2001. The audit reviewed the business operation of Eles with foreign countries in the following scope: leasing of power, import and export of electricity, trading electricity, leasing out transporting ways.

The Court of Audit assessed that Eles, in the period from 1998 to 2001, managed its business operation with foreign companies in line with legislation. Nevertheless the Court of Audit pointed out that Eles made contracts to trade with electricity in the period when trading was allowed, but also in the period when trading was not allowed. That observation did not influence the positive opinion on the regularity of business operation.

The performance audit showed that the business operation of Eles with foreign countries was efficient except in two cases:

- when Eles incorrectly accounted for reimbursements for electricity transits in 2000 and 2001. The Court of Audit assessed that Eles presented less electricity for the reimbursement for electricity transits,
- when Eles did not thoroughly follow the agreed prices and dates in accounting for the electricity transit for the company Verbund (2000 and 2001). Therefore the profit was smaller and the Court of Audit assessed the delays in issuing invoices as not economic.

The Court of Audit found that the efficiency of selling and purchasing electricity was lower (especially with the company Entrade) than the average efficiency of all sales and purchases with foreign companies.

Audit of Business Operation of the Slovene Development Company

In 2002 the Court of Audit completed audits of business operation of the Slovene Development Company for 2000 and 2001. The audits were undertaken on the basis of the provisions of the Slovene Development Company Act and the restructuring programme. In both cases the financial statements were audited by a commercial audit company, the Court of Audit undertook additional reviews of the regularity of business operation.

The review of the financial statements, balance sheet, profit and loss statement, cash flow statement for 2000 and 2001 showed true and fair picture of the financial situation on 31 December 2000 and on 31 December 2001. The cash flow statement and business results were in line with Slovene accounting standards and legislation.

The Court of Audit pointed out, in the opinion on the financial statements for 2001, the events relating to the liquidation and restructuring of the SDC which was implemented in line with decision of the Government (adopted on 14 February 2002) and the Programme on the liquidation procedures.

When reviewing the regularity of business operation it was found that, in 2000, there were deviations from the adopted financial plan and that the operational costs increased compared to the previous year.

The Court of Audit expressed an opinion with reservations on the regularity of business operation for 2001, due to the following irregularities relating to public procurement:

- Purchase procedures, renting and ordering of tangible fixed assets, intangible fixed assets, material and services were not always implemented in line with the Public Procurement Act,
- When reviewing purchases of basic materials (95 per cent of all purchases in 2001) it was found out that 33 per cent of purchases were implemented incorrectly,
- When reviewing purchase procedures, it was found that the Slovene Development Company did not follow the regulations thoroughly. 38 per cent of all payments reviewed were irregular (there was no supporting documentation).

Regularity Audit of Non-commercial Public Services

Audits of Secondary Schools

There were five audits of secondary schools completed in 2000. The schools were included in the Audit Programme on the basis of proposals received. Those secondary schools were reviewed from the point of regularity, three of them also from the point of performance of their operation.

The Court of Audit reviewed the costs of business operation and analysed occupation of working posts, work load according to the organisation of work posts which was developed on the basis of valid norms and standards. The Court of Audit reviewed the efficiency of the implementation of other activities which were not part of the regular public service. Those services can be undertaken in order to create additional income. The performance audit focused on the adult training programme and the most important issues were: how adult training programme contributed to the efficient use of school's capacities and whether the school obtained sufficient revenue to cover operational costs. On the basis of the results of questionnaires and analyses, the terms public service and own activity were defined. The auditors were able to examine the scope, content and recording of those activities.

The audits of the selected secondary schools showed the completeness and regularity of recorded revenues and expenditures relating to the implementation of the public services.

Some of the most important findings relating to the regularity audits were:

- Schools did not prepare financial plans (four schools),
- School paid the employees performance bonuses illegally (one school),
- Some of the employees were overburdened which means that the provisions on employment policy were violated, furthermore over time was paid on the basis of contract based wages (two schools);
- Procurement of small value items were undertaken irregularly (two schools).

The findings of the performance audits could be summarised in the assessment that the adult training which was implemented additionally to the public service did not have a negative influence on the educational programme for the youth. With the additional training programmes for adults, the schools improved the efficient use of their capacities, nevertheless there still remained capacities which were not used. The training programme was efficient also from the perspective of obtaining income to cover their costs. Additionally the schools implemented own activities and obtained additional income which was used for development and improvement of capacities, in that way the budget was relieved of some of the pressure. The Court of Audit expressed an opinion that schools could obtain additional funds by introducing new programmes or by increasing the scope of programmes or activities. In that way the existing capacities of schools would be used even more efficiently.

Audits of Health Centres

In addition to the audit of the Health Insurance Institute, the Court of Audit also carried out three audits of medical service providers in 2002. The Court of Audit undertook regularity audits of Hospital Izola and the Rehabilitation Institute of the Republic of Slovenia for 2000. The audit objectives were: to review the completeness and occurrence of the financial statements and the compliance of operation with the relevant legislation and also the efficiency of purchases of the University Medical Centre Ljubljana for 2000 and 2001.

The audits of *the Hospital Izola and the Rehabilitation Institute of the Republic of Slovenia* verified the occurrence and completeness of financial statements for 2000; the audit opinion relating to the regularity of their business operation was expressed with reservations.

The audit of *the Hospital* found the following irregularities:

- in selecting a supplier of specialised apertures, the hospital did not consistently follow the Public Procurement Act. Because the Hospital did not obtain two comparable bids, the public procurement process should have been stopped and a new one introduced;
- the Hospital did not consistently follow the Public Procurement Act when selecting suppliers of material, goods and services providers;
- in allocating bonuses for night shifts and reimbursements for absence, the provisions of the collective agreement were violated;
- other irregularities were: unjustly allocated bonuses for functionaries, performance bonuses for the manager in 2000, other illegal allowances.

The audit of *the Institute* found the following irregularities:

- the Institute purchased goods to the value of 42.062 thousand tolar (that is 1,4 per cent of all expenditure in 2000) without public invitations for bids,
- the Institute provided their staff with a seniority allowance as well as permanency bonus.

The Court of Audit undertook an audit of the efficient use of funds for purchases and services at *the University Medical Centre Ljubljana* for 2000 and 2001. The auditors reviewed 11 public procurement procedures, 9 contracts made for purchases of equipment, 39 contracts with service providers and 35 public procurement procedures without public invitations for bids. The audit was seeking to address the following issues:

- whether the Medical Centre had defined its needs completely and thoroughly and whether it managed selection of suppliers procedures in order to assure the selection of the best tender,
- whether the Medical Centre exerted efficient control over the implementation of the contracts.

On the basis of the audit findings the Court of Audit expressed the opinion that the Medical Centre should improve the efficiency of purchasing. There was no strategy, objectives or methodology developed for the public procurement. Therefore the procurement procedures were dispersed, the assessment criteria for tenders were not defined in detail, some selection procedures were not implemented on time and were not recorded properly. The Medical Centre did not provide efficient monitoring of the contract implementation.

Other Audits

Privatisation Audits

In 2002 the Court of Audit completed four privatisation audits. The audit objectives of all four audits were to review: the compliance between the implemented procedures and relevant legislation and the efficiency of privatisation.

The audit of the sale of shares of companies in 2000 at the Slovene Development Company (herein after: SDC) identified the sale of shares as the audit subject. The SDC obtained ownership of these shares through the transfer and restructuring of socially owned resources. The audit reviewed three sales of shares in detail, namely shares of Adria Mobil d.o.o., Novo mesto, Izolirka d.o.o., Ljubljana and Avto Kočevje d.o.o., Kočevje. The auditors also examined the procedure of sale of the SDC's receivables.

The objectives set by the SDC in the privatisation process were to continue with operations, reduce the loss, retain staff and protect the investments. The total financial impacts are not the appropriate means for assessing the efficiency. The SDC, in line with their business orientation focused on achieving the set objectives of the sales, therefore the economy and efficiency of the sales were defined as secondary elements in meeting their performance. The approach described above was considered by the Court of Audit as appropriate one. In assessing the outcome of sales, the Court of Audit focused on the effectiveness of the implemented sales.

On the basis of the results of testing, it was found that the SDC managed sales in accordance with the valid regulations and internal instructions with some minor deviations. In the audited cases the funds used for financial restructuring and sale costs were higher than the purchase prices. The Court of Audit considered the incurred costs were reasonable. The completed financial restructuring was effective in all three companies, since the sale had a positive impact on income, reduced the loss and retained staff.

The audit of the sale of shares of the Republic of Slovenia in the Company Lesonit d.d., Ilirska Bistrica (herein referred to as Lesonit) and the audit of the sale of a part owned by the Republic of Slovenia in the Company Feniks d.o.o., Žalec (herein after referred to as: Feniks) were carried out at the Government of the Republic of Slovenia. The Government is authorised to manage the real estate and other assets of the Republic of Slovenia and for control over the work of the ministries. The Government decides on capital investments in line with the programme on sales of the state assets.

The subject of the first audit was the sale of 70.709 ordinary shares in the *Company Lesonit*, in connection with its reorganisation. Slovenia became the owner of shares in the conversion process when the receivables turned into capital of the company. On the day of the conversion the shares represented 12, 34 per cent of the basic capital of the *Company Lesonit*. The subject of the second audit was the sale of a part owned by the Republic of Slovenia in the Company Feniks in 2001 in connection with its reorganisation. That part represented 39 per cent of the total. The state obtained preferred equity in the company by using bonds in the restructuring programme.

The audit procedures related to the reorganisation of the companies and the sale of shares from the planning stage to the analysis of the sale impacts. The evidence for the audit opinion was obtained through testing the regularity and the efficiency of the Government's activities; by collecting information at the ministries and from legal persons who were involved in the sale.

The results of both audits enabled the Court of Audit to express an audit opinion on the regularity of business operation. It is clear from the opinion that the Government managed and implemented the sales in line with the valid and relevant regulations. The sales were included in the programme on the sale of the state assets for 2000, the sale methodology was selected in accordance with the valid legislation.

When assessing the efficiency of the sale of Lesonit shares, it was found that the income from the sale and from the investment and from dividends exceeded the State's inputs. The Government achieved appropriate efficiency in the procedure of obtaining and selling the shares, i.e. the efficiency in relation between the inputs and impacts. The selling price for a share was for 9 per cent higher than the planned one and was 17 per cent higher than the book value. The costs of the sale were reasonable. The Government set the basic selling price above the market value, which was defined by the professional valuer, and it was successful in reaching that selling price. The objective of the Government was to provide additional funds for the budget and the objective was reached. Although the selling price was reached, if compared to the one planned in 1999 it was for 18 per cent lower. That means that the objective of the Government was not completely reached.

The benefits of the sale of the part in the Company Feniks exceeded the State's inputs. The Government achieved appropriate efficiency in the procedure of obtaining and selling the part. The costs of the sale were reasonable. The minimal conditions for sale were implemented but those were not the appropriate criteria for the assessment of the effectiveness of the sale. Due to that limitation the Court of Audit could not express the opinion on the effectiveness of the sale.

The audit of the allocating of a concession for the use of the radio frequencies spectrum for services UMTS/IMT-2000 (herein after known as the concession) was carried out at the Government. It was the Government who decided on the selection of the concessionaire and on defining conditions and procedures for the allocation of up to three concessions. The audit subject was the allocation of the concession for the use of the radio frequencies spectrum for services UMTS/IMT-2000, which was undertaken by the Government in 2001. The audit procedures related to the complete procedure of concession allocation (from the preparation of proposals to the paying of the concession fee).

When designing an audit opinion, the Court of Audit considered the limitation relating to the obligations of the concessionaire, which were not overdue by the end of the audit process, therefore the auditors were not able to review their implementation.

The audit verified that the Government managed and implemented the procedure of allocating the concession in line with the valid and relevant regulations.

The procedure of allocating the concession was assessed as efficient, considering the concession fee. The income from the concession fee was equivalent to the planned and comparable to fees in other European countries. The costs of that procedure were insignificant if compared to achieved income.

Audit of the Regularity of Business Operation of the Red Cross Slovenia

The regularity audit of the Red Cross Slovenia for 1999, 2000 and 2001 included a review of the financial statements, of the regularity of business operation and procedures of granting and raising loans on the basis of the financial statements from 1995 onwards. The audit subject was the review of the bookkeeping records from 1997 on, because the records must be kept for 5 years as provided by the Rules on financial management of the Red Cross Slovenia.

The audit showed that the balance sheets (from 31 Dec. 1999, 31 Dec. 2000 and 31 Dec. 2001), the profit and loss statement for the period from 1999 to 2001 and the business operation results did not present true and fair picture of the financial situation of the Red Cross. The negative audit opinion on the financial statements was the result of the incomplete presentation of business events, which were not recorded in the books, and the use of funds contrary to the plans. It was found that funds earmarked for humanitarian programmes were not used only for that purpose but also for other operations of the Red Cross.

The Court of Audit found out also that re-allocations of funds between programmes

were carried out without the approval of the bodies of the Red Cross. There were some programmes which did not have the clearly defined criteria for allocation of funds. Such criteria are necessary in order to allocate funds between the programmes and administrative costs of the Red Cross.

Due to the fact that there were many irregularities identified, the Court of Audit expressed a negative opinion on the regularity of business operation of the Red Cross. The Red Cross acted contrary to the valid regulations when:

- making contracts, and it incurred unjustified liabilities related to establishing companies;
- investing into company Slork d.d., Ljubljana (real estate which were obtained for humanitarian projects);
- the secretary general of the Red Cross took up a position at Slork d.d., Ljubljana, represents incompatibility between his office and the profit-making activity;
- not implementing provisions of the contracts and not protecting their profit;
- not using funds for activities which were planned and allowing transfers of funds between programmes;
- not defining ownership related to obtained proprietorial certificates;
- incorrectly accounted for and paid salaries to managers, and incorrectly accounted for and paid compensation for the dismissal of the secretary general;
- investing funds raised for humanitarian projects into establishing the company Slork d.d. Ljubljana; when lending the funds to other companies what is contrary to the purpose of the Red Cross.

The Court of Audit issued a demand to the Red Cross to take action. The authorised bodies were asked to implement the necessary activities for repayment of funds which were unjustly paid to secretary general, management and others; to assess the real estate owned by the Red Cross, to introduce the correct recording of business transactions in the books and to assure that the Red Cross properly presented received and used funds in line with the planned humanitarian programmes.

Environmental Audit

In 2001 the Court of Audit undertook its first environmental audit. The objective of the audit was to review the regularity of the use of funds for the implementation of the monitoring programmes. The auditors also reviewed if international agreements relating to nature protection had been followed. The audit report on the implementation of the first and second point of Article 9 of the Convention on Co-operation in the Process of Protection and Permanent Use of the Danube River (hereinafter: Danube Convention) was issued at the beginning of 2002. It included reviews of the regularity of procedures relating to the implementation of the monitoring programmes in 1999 and 2000. The audit was carried out at the Ministry of Environment and Spatial Planning, its constituent bodies: Hydrometeorological Institute of Slovenia, Nature protection Authority, Inspectorate of the Republic of Slovenia for Environment. The Ministry of Environment was monitoring the realisation of the Danube Convention, which was ratified by Slovenia with the Act on Ratification of the Convention on Co-operation and Permanent Use of the Danube River.

The countries that signed the Danube Convention carried out monitoring on the basis of the common EPDRB programme (Environmental Programme for the Danube River Basin), which was authorised by an international commission. There were 13 countries involved in the programme, among them the Republic of Slovenia.

The audit reviewed the regularity of use of funds for the budget lines *5010 – Water quality – monitoring* and *6824 – International water monitoring* for 2000. The funds for the budget line *6824* were allocated for monitoring in accordance with the demands of the Danube Convention, for contracts with external experts, for monitoring on the border with Italy. The funds for the budget line *5010* were allocated for monitoring, reporting, maintaining, data base, co-operation with the international group ATH (Association of Tracer Hydrology).

The Court of Audit found that the use of funds for the emission monitoring programmes was not correct in all material aspects, therefore an opinion with reservations on regularity of funds use was expressed. Irregularities related to: the procedures of public procurement for the realisation of water emission monitoring which took several months before the contracts were made between entities for monitoring and the Hydrometeorological Institute; and the earmarked budget funds for 2000 which were based on the signed contracts on the emission monitoring programmes from 1999, were not recorded.

Developmental Initiative of the Court of Audit

Twinning Project

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 were committed to achieving the goals in two years. In order to achieve the objective of developing the audit of public spending in Slovenia the project was organised to cover two key areas of auditing: the development of the audit of operational regularity and the development of the audit of operational efficiency.

The Twinning Project was successfully completed in September 2002. 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. The manual will be formally issued and implemented in 2003.

Following the completion of the first Twinning Project the Court of Audit decided to continue the co-operation with the European Union and took the opportunity to apply for funds for a second project. The second Twinning Project consists of four components which are referred to four areas in order to further strengthen the Slovenian Court of Audit. Each component will be implemented in co-operation with one of the four distinguished audit institutions from the European Union. The components are:

- to develop the capacity of the Court to examine the Results Based Budgets of the Slovene Government,
- to develop the capacity of the Court to carry out effective audits of local government institutions,
- to carry out effective audits of the final beneficiaries of Slovenian and EU public expenditure, specifically as regards State Aid and grants and subsidies to individuals,
- to develop the Court's policy and approach in the fight against fraud and corruption.

The first component of the Twinning Project will be implemented in co-operation with the National Audit Office of the United Kingdom, the second component with the Audit Commission of the United Kingdom, the third component with the NAO – Denmark and the fourth one with the Spanish Court of Audit.

The objectives set up by the Court of Audit are the following:

- improved professionalism and functioning of the Court of Audit of Slovenia, with particular reference to strengthening Court's internal systems for strategic planning, resource management, monitoring and evaluation;
- skilled staff able to undertake the audit of grants and subsidies to final beneficiaries; the audit of local authorities and the examination of Results Based Budgets;

- clear policy and guidelines on the role of the Court in the fight against fraud and corruption;
- practical guidelines or manuals, based on European standards, specifically related to the audit of the recipients of State Aid, results-based budgeting, fraud and corruption and local government based on European standards in the respective fields; and
- increased communication and co-operation with the Ministry of Finance.

Guidelines

One of the requirements of the Court of Audit, when auditing the use of public funds, is to implement its working directions and methods. Therefore the Court of Audit can issue guidelines which define rules and direct the implementation of each audit phase within the audit process. The guidelines must be based on the provisions of the Court of Audit Act, the Rules of Procedure (Official Gazette of the Republic of Slovenia, no. 91/01) and the Directive for the implementation of audits (Official Gazette of the Republic of Slovenia, no. 41/01).

In 2002 the President of the Court of Audit issued six guidelines: Guideline on Materiality, Guideline on Audit Process, Guideline on Audit Planning, Guideline on Field Work, Guideline on Reporting and Guideline on Quality Assurance. The guidelines prescribe procedures used by the Court of Audit for auditing public expenditure, income and business operation of public funds users. The guidelines as well define instructions for implementing audit tasks.

The guidelines are in line with each other, with the Audit Manual of the Court of Audit and with the auditing standards adopted by the Member States.

Manual

In order to achieve its mission – to develop a well respected professional organisation producing relevant and timely reports on the way that the Government has used taxpayers money and to enable the auditors to implement their responsibilities in the available time - the Court of Audit prepared a draft audit manual.

The Manual includes very detailed instructions about the use of directions presented in the audit guidelines. The endeavour of the Court of Audit, which is presented in the manual, is that the audits achieve the desired impacts: high quality and reliability of the audits. The manual's structure presents the audit procedures in a detailed way. The auditors will be able to use the manual when:

- planning and implementing audit tasks in order to enable them to express an opinion on financial statements of the auditee and on compliance between business operation of the auditee and the legislation,
- identifying and appropriately managing risks which occur during the audit work,
- implementing audits in efficient and effective way,

- providing reasonable advice to the auditees as well as an insight into implemented audit in order to improve the quality of the public funds management,
- presenting the way the audits were implemented and the results of the audits in a clear way,
- introducing unified grounds for the exchange of internally developed skills.

The Court of Audit exchanged experience in preparations of the audit manual with other Supreme Audit Institutions. The National Audit Office of the United Kingdom assisted the Court of Audit in developing the audit manual in the Twinning Project. The Court of Audit also attended workshops and seminars organised by the European Court of Auditors and SIGMA (Support for Improvement in Governance and Management in Central and Eastern European Countries). The Audit Manual is one of the most important foundations for implementation of audit work, therefore the future training of the auditors shall be based on the manual.

Training and Employment

Preparations of the Training Programme to Obtain Audit Titles

One of the objectives of the Court of Audit is to develop the professional skills of the auditors for the implementation of more demanding audit tasks. Therefore in 2002 the training project for obtaining the titles "state auditor" and "certified state auditor" was introduced.

The title "state auditor" must be obtained by auditors who are allocated to the work posts of principal auditor and senior auditor. Those auditors must already have enough audit experience or can obtain them in 2 years to be allocated to work post which demands the audit title. As anticipated there will be 28 auditors who will participate in the training for the "state auditor". Auditors who are allocated to the work posts of the deputy to the Supreme State Auditor must obtain the title certified state auditor. There will be approximately 25 auditors who will participate in that training programme.

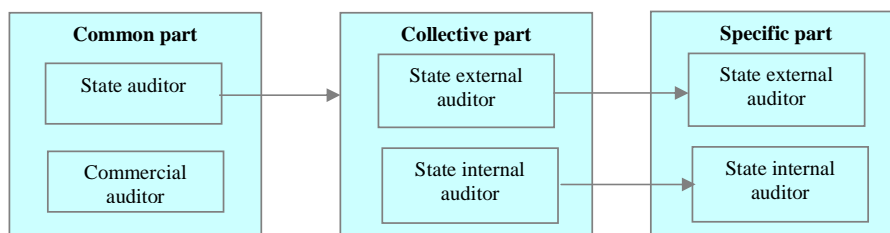
The project shall continue in 2003 and 2004. It includes two parts. The first part comprises the preparation of the rules on training programme and on issuing certificates for state auditors and certified state auditors. The rules define conditions for obtaining the certificates and the training organisation. The second part comprises activities referred to the organisation and training implementation and to awarding the titles. In 2002 the first part of activities was completed.

The training programme for the titles "state auditor" and "certified state auditor" consists of:

- common part which includes general topics relating to auditing,
- collective part which includes skills and knowledge that are necessary for the state auditor and internal state auditor and
- specific part which includes specialised skills and knowledge necessary for the implementation of external audits.

The three parts described above were planned in co-operation with the Ministry of Finance in order to enable the auditors to use the obtained skills for other professional titles. Figure 17 shows how the skills and titles are linked.

Figure 17: The training programme structure



The training programme for obtaining the title "certified state auditor" is an upgrade of the preliminary training programme which strengthens the skills needed for organising and managing the most demanding audits of public funds.

Other Forms of Training

The Court of Audit undertook a commitment to keep auditors informed about the latest developments on the area of auditing, which resulted in a seminar organised with the Slovene Institute of Audit in June 2002. The seminar on new Slovene Accounting Standards was attended by 59 auditors.

In December the Court of Audit organised training days for the Court which were attended by 92 employees. The programme included the following topics:

- the public procurement,
- the audit assurance model,
- the materiality of disclosed irregularities or errors,
- the new tasks of the support services.

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

In 2002 the employees attended various seminars 120 times. At the seminars they improved their skills; one fifth of the seminars were organised abroad. Most of the staff at the Court of Audit were involved in the two-year Twinning Project that was completed in August 2002.

Employment

In 2002 the employment policy of the Court of Audit was oriented towards employing new audit staff, mainly for the more demanding working posts.

Eventhough the Court of Audit intensively focused on acquiring new staff, only two contracts were made for the most demanding work posts – advisors to the president. In 2002 also two trainees for auditors were employed. Four new employees joined the support services, because of the longer absence of employees or to replace those who had left the institution. There were, in total, 106 employees at the Court of Audit at the end of 2002: eight employees made new contracts and four employees left the Court. The number of employees increased for 3,9 per cent between 1 January 2002 (102 employees) and 31 December 2002.

In 2002 the staff turnover represented 3,6 % (the relation between the number of employees whose employment contract expired in 2002, and the number of employees at the Court of Audit on 31 December 2001). If compared to the previous three years when the average staff turnover represented 7,8 %, it could be concluded that the employed population is stabilising.

Table 6: Composition of staff at the Court of Audit by education at the end of 2003.

The level of education or an academic title	The number of employees on 31 Dec. 2002	Structure in per cent
Ph.D.	3	2,8
M.A.	10	9,4
University degree	75	70,8
Higher education	4	3,8
Secondary education	13	12,3
Vocational education	1	0,9
Total	106	100,0

The educational structure at the Court of Audit in 2002 was: university degree and academic titles 83 per cent, higher education 3,8 per cent, secondary and vocational education 13,2 per cent. Table 7 shows the allocation of personnel according to the area of work in 2002.

Table 7: Composition of staff by function

Area of work	The number of employees on 31 Dec. 2002	Structure in per cent
Management		9,4
▪ Member	3	
▪ Supreme State Auditor	6	
▪ Secretary of the Court	1	
auditing		63,2
▪ Adviser	6	
▪ Assistant to Supreme State Auditor	20	
▪ Principal Auditor	16	
▪ Senior Auditor	25	
Support		27,4
▪ Secretary	11	
▪ Other employees	18	
Total	106	100,0

Due to the demanding audits included in the Annual Programme, it was necessary to change the structure of working posts. Therefore the number of advisors increased.

Twice a year there were reviews of performance carried out, in order to assess the quality of undertaken work. In accordance with the results of the reviews, seven employees were promoted.

International Co-operation

Co-operation with Other Institutions

The Twinning Project, which is described in detail on page 50, is no doubt the most important element of the co-operation between the Court of Audit of the Republic of Slovenia, the European Union and the National Audit Office of the United Kingdom. The project involved most of the auditors at the Court of Audit.

An important part of the interinstitutional co-operation is represented by training programmes and seminars, workshops and courses which were attended by representatives of the Court of Audit. In 2002 twenty employees of the Court of Audit attended such training programmes.

The Court of Audit each year strengthens its co-operation with the European Court of Auditors who together with the SIGMA organises professional discussions and seminars for Candidate Countries. The purpose of such discussions is to co-ordinate and unify activities of the Supreme Audit Institutions in Europe. Those seminars are held each time in another country which is a host of the meeting. In 2002 the Court of Audit actively participated in several seminars and workshops.

In Bulgaria and Poland there were preparations for development of an audit manual. The Advisor to the Second Deputy President attended one workshop and the Second Deputy President attended another workshop where she presented the paper on quality assurance in the audit process at the Court of Audit.

The European Court of Auditors organised the seminar on auditing the use of EU funds which was held in Luxembourg. The seminar was attended by three auditors of the Court of Audit. The European Court of Auditors and the Court of Audit co-operated also on another level: the European Court of Auditors requested the Court of Audit to implement the audit on the efficient use of Phare funds – assistance to the Candidate Countries to manage Structural funds. One auditor of the European Court of Auditors co-operated with the Slovene audit team in concluding the Audit on the efficient use of Phare funds in Slovenia.

In 2002 the team which operates within the INTOSAI Development Initiative organised a seminar Instructional Techniques Workshop which took place in Krakow. The Advisor to the Second Deputy President who attended the seminar in 2001, was again among the participants. After the conclusion of the seminar she was selected as a lecturer, therefore she was sent to additional training which was held in Norway. In autumn she was leading the seminar in Tallinn together with other lecturers. The seminar was attended by two other auditors from the Court of Audit. The topics of the seminar were financial audits and detecting fraud and corruption.

In 2002 the European SAIs gathered twice to discuss the international environmental audits. The environmental audits are becoming more and more important topic, since the pollution is a problem which is faced by most of the countries, so the SAIs join

strengths in implementing such audits. The findings of one of the environmental audits, which was implemented also by the Court of Audit, were discussed at the meeting in Paris. The President of the Court of Audit attended that meeting. Another seminar referred to environmental audits was held in Poland and it was attended by the Supreme State Auditor and the Deputy to Supreme State Auditor.

The Court of Audit has a well developed relations with the Austrian Rechnungshof. In 2002 there was a seminar held in Ljubljana which was managed by the auditors of the Austrian Rechnungshof. The topic of the seminar was audits of public utilities. The President of the Rechnungshof participated in the seminar.

Representatives of the Hungarian and Slovene Supreme Audit Institutions met at the meeting in Budapest in September 2002. They agreed upon the implementation of the parallel audit on the railway line construction which connects the countries. The representatives gathered again at the end of the year in Hungary to co-ordinate the audit approach and the presentation of the audit results.

The SAI of the United States of America in co-operation with the Hungarian Supreme Audit Institution managed the seminar on performance audits. The seminar was held in Hungary and it was divided in two parts. The first part was attended by three auditors and the second one by two auditors of the Court of Audit.

The Court of Audit established a co-operation also with the National Audit Office of Denmark. The auditors of the Court of Audit visited twice the NAO where they discussed the post audit reports and became acquainted with the work at the NAO Denmark.

The National Audit Office of the UK organised the seminar on the privatisation audits which was attended by the Advisor to the Second Deputy President. The National Audit Office of the UK each year organises the international training seminar which was participated by one auditor of the Court of Audit. The Advisor to the President undertook the working visit to the NAO, where she spent some time on the International department and Public relations department, she became acquainted with the organisation of the library and tasks referred to setting up an intranet.

Other Forms of International Co-operation

The scope of the international co-operation increased in 2002 if compared to the previous years. The key reasons for that were international activities referred to the pre-accession process, entrance into the European Union and new tasks of the Court of Audit after the EU accession. Several multilateral meetings as well as bilateral working visits were organised for that purpose. Apart from that there was regular co-operation between the Court of Audit and international organisations – INTOSAI and EUROSAI.

The most important international event was the EUROSAI Congress, which was held in Moscow in May 2002. The Congress was participated by four representatives of the Court of Audit. The President of the Court of Audit presented at the Congress a well received paper: Auditing the State Budget Execution – How we do it in Slovenia.

The preparations for the Congress were completed already in March 2002, when the President of the Court of Audit, who is a member of the EUROSAI supervisory board, attended the yearly meeting that was held that year in Denmark. At that occasion he visited the National Audit Office of Denmark.

In April there was the co-ordinative meeting of the representatives of the Central European and East European countries, Cyprus, Malta and Turkey, which was held in Malta. The purpose of the meeting was to plan the activities of the working group. The Advisor to the President attended the meeting.

At the conference of the Candidate Countries, which was held in Prague in May 2002, the representatives of the Supreme Audit Institutions exchanged experience on preparations for accession to the European Union and on new tasks of the SAIs after the accession. The President of the Court of Audit and the Pre-accession Advisor on mission in Slovenia participated in the conference.

In 2002 Slovenia became a member of the INTOSAI Working group on Privatisation. The meeting in Oslo (in June) was attended by the Second Deputy President of the Court of Audit.

The EUROSAI organised the first meeting for the Working group on IT in Haag in September 2002. The meeting was participated by the Advisor to the President.

In Luxembourg there were two important meetings: the first one, which was held in October, was organised for the representatives of the SAIs of the Candidate Countries and Member States; the second one, which was held in November, was organised for the Presidents of the SAIs. The subject of both meetings was preparations for new tasks of the Supreme Audit Institutions. The first meeting was attended by the Advisor to the President and the second one was attended by the President of the Court of Audit.

In Brussels the European Commission organised for the second time a workshop with the title Single Audit? The workshop, which was held in November 2002, was attended by the President and the Advisor to the President of the Court of Audit.

V India there was a meeting of the INTOSAI Committee on IT Audit in November 2002. The Court of Audit is a member of the Committee, therefore the representative of the Court of Audit participated and presented the report on the seminar, which was held in Ljubljana in 2001.

The President of the Court of Audit attended the meeting of the presidents of the Central European and East European, Cypriot, Maltese and Turk SAIs which was held in Bucharest in December.

The delegation and the President of the National Audit Office of Denmark paid the Slovene Court of Audit a working visit in October 2002. The representatives of the SIGMA visited the Court of Audit twice. The SIGMA monitors the work of the Court of Audit for several years and reports to the EC on the progress of Slovenia in meeting the demands referred to the external audit on the use of public funds.