

Auditing the Aggregated Balance Sheet of the Republic of Slovenia: Challenges from Auditor and Auditee Perspective

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State balance sheet provides an insight into all assets under government control. Aiming at more accurate and transparent financial reporting, state balance sheet audits help building citizens' trust, contribute to better understanding of risk factors across the balance sheet, provide opportunities for improved asset and liability management, reduce the cost of borrowing, and contribute to improved fiscal policy. In Slovenia, the Court of Audit conducts annual audits of the state's aggregated balance sheet in accord-

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ance with the Public Finance Act and the Court of Audit Act. Since the first separate audit in 2014, the auditor has issued a disclaimer of opinion on the aggregated balance sheet every year due to the lack of sufficient and appropriate audit evidence. Based on the analysis of the audit reports, our paper contributes to the development of public sector auditing research by identifying the auditor- and auditee-related challenges in auditing the aggregated balance sheet in Slovenia.

Keywords: public sector auditing, final account of the state budget, state balance sheet, Supreme Audit Institutions, audit opinion, corrective measures, Slovenia

1. Introduction

In Slovenia, the Public Finance Act and the Court of Audit Act require mandatory annual audit of the final account of the state budget by the Court of Audit of the Republic of Slovenia (CoA). The aggregated balance sheet of the state, which is prepared on the basis of the trial balances of all direct budget users and the budget of the Republic of Slovenia and thus represents the sum of assets and liabilities of the direct budget users and the budget of the Republic of Slovenia (Court of Audit of the Republic of Slovenia, 2018), has been a mandatory part of the final account since 2010. Consequently, in this year the audit of the aggregated balance sheet of the state in Slovenia became legally mandatory.

In the first years after the introduction of this obligation (from 2010 to 2013), the audit of the aggregated balance sheet was an integral part of the audit of the final account. During this period, no separate audit opinion was issued on the aggregated balance sheet, and the findings on the aggregated balance sheet did not affect the audit opinion on the final account. In 2014, however, the CoA began conducting separate audits and issuing individual audit opinions on the aggregated balance sheet. The analysis of the publicly available audit reports shows that since the first separate audit in 2014, the CoA has issued a disclaimer of opinion on the aggregated balance sheet every year because the auditors were not able to obtain sufficient and appropriate audit evidence (i.e. limitation on the scope of the audit, ISA 705, 2016) to confirm the true and fair presentation of assets and liabilities. The problem arises from insufficient

control of state property and inconsistencies in asset valuation and reporting by state administration, which prevent the auditor from issuing an audit opinion and consequently do not allow for effective management of state assets.

A modified audit opinion in the public sector has a negative impact, as it weakens the integrity and reputation of the government and consequently reduces citizens' trust and influences their voting behaviour (Pimenta de Jesus, Machado de Almeida & Fernandes Gomes Da Silva, 2022). Edmonds and colleagues (2020) outline that modified audit opinions also affect the required return on government or municipal bonds, as investors penalise governments and municipalities for unreliable financial statements.

Historically, the management of state balance sheet has not been an area that governments have paid much attention to as for most, financial management has been focused on the budget deficit or surplus and the resulting impact on borrowing. However, this is gradually changing as governments face low growth in tax revenues and inevitable pressure on spending. The Organisation for Economic Co-operation and Development (OECD, 2017) reports that there has been progress in the scope and completeness of state financial statements over the last two decades. However, a significant proportion of Supreme Audit Institutions' audit reports continue to raise various questions and concerns, suggesting that governments can still improve the quality of their reporting. This is in line with our observations on the aggregated balance sheet of the Republic of Slovenia. In view of the repeated auditor's disclaimer of opinion, it can be concluded that this statement does not provide a credible basis for decision-making, raising questions about the accountability of the preparers and decision-makers.

The scope of the paper is to conduct a comprehensive analysis of audit reports to investigate and identify the challenges in auditing the aggregated balance sheet of the Republic of Slovenia. The paper investigates the mandatory annual audits conducted by the CoA, particularly focusing on the systemic issues leading to repeated disclaimers of opinion and discusses the broader implications of modified audit opinions on government integrity and public trust. In light of the increasing demands for accountability in the public sector, the paper aims to contribute to raising awareness of the importance of the state balance sheet and its audit for efficient and transparent management of public finances.

Although public sector audits constitute a significant part of audits, Hay and Cordery (2018) and Pimenta de Jesus, Machado de Almeida and Fernandes Gomes Da Silva (2022) note that this area is under-researched and

not enough attention is being paid to the aggregated balance sheet of the state and the results of its audit. Our paper contributes to the development of public sector auditing research by identifying the auditor- and auditee-related challenges in auditing the aggregated balance sheet in Slovenia.

The paper is organised as follows: section 2 provides an overview of the increasing importance of state balance sheet in light of transparent management of public finances and accountability. Section 3 outlines the role of Supreme Audit Institutions in public oversight. Section 4 presents the analysis of audit reports on the aggregated balance sheet of the Republic of Slovenia, including the research methodology, a chronological overview of audit approaches, and the results of the analysis of audit reports on the aggregated balance sheet of the Republic of Slovenia, along with the identification of problematic balance sheet items that resulted in auditor's disclaimer of opinion. Section 5 explains the existing challenges from the perspective of the auditee and the auditor, and section 6 concludes.

2. State Balance Sheet and its Vital Role in the Management of Public Finances

The state balance sheet provides an insight into all assets under government control and enables a better understanding of risk factors across the balance sheet, thereby providing opportunities for improved asset and liability management (IMF, 2018). In Slovenia, the state balance sheet in the form of the aggregated balance sheet is prepared by the Ministry of Finance in accordance with the Guidelines for the preparation of the aggregated balance sheet (Court of Audit of the Republic of Slovenia, 2019). It is based on analytical trial balances and represents the sum of the balance sheets of all direct budget users and the budget of the Republic of Slovenia. The state aggregated balance sheet differs from the state consolidated balance sheet as it shows the total assets and liabilities without inter-entity netting.

State balance sheet management has the potential to increase the return on assets, reduce the risks and costs of borrowing, and improve fiscal policy (Alves, De Clerck & Gamboa-Arbelaez, 2020). The government's long-term goal is not to increase net wealth, but to provide public goods and services to its citizens and, ideally, to create a buffer against future uncertainty. Therefore, the state balance sheet is not an end in itself, but an instrument to support public policy objectives. It enables a more informed assessment

of risks, enriches the content of the policy debate, and provides a broader fiscal picture beyond debt and deficit (IMF, 2018). This is particularly important in the current context of high – and rising – public debt and related risks. By disclosing what the government owns and owes, the state balance sheet provides transparency to the markets and accountability to citizens. In addition to net financial worth, various additional indicators provide insights into the condition and resilience of the balance sheet. These include traditional measures such as gross debt as well as measures to assess risk disparities and the extent of hedging within the balance sheet. These measures provide a comprehensive set of indicators to consider when assessing fiscal prosperity (Alves, De Clerck & Gamboa-Arbelaez, 2020). Moreover, the structure of the balance sheet is crucial, as countries with stronger balance sheets have lower financing costs and are better prepared for periods of recession (IMF, 2018).

One of the most important aspects of the state balance sheet is transparency. It should reflect a comprehensive financial position of the state and reveal its financial risks, strengths and weaknesses. Although it is only a snapshot at a particular point in time, the balance sheet provides information that reflects expectations about the ability to cope with risks in the future, and enables an assessment of the sustainability of public debt. The identification of risks in the public sector significantly increases the transparency of public finances. However, Hagen and Chen (2018) point out that many governments shun transparency to avoid accountability for their policies and actions or to improve their position in financial markets by withholding information.

Data regarding the efficiency of governments in managing large portfolios of public assets is scarce, and there are only a handful of analyses of whether investments in various public assets have yielded adequate returns. It is unclear whether taxpayers are receiving a satisfactory return on investment in these assets, either in financial terms or in terms of efficient public service delivery. It is therefore vital that policymakers and those who hold them to account prioritise the management of the state balance sheet (ICAEW, 2017). Effective management of state assets and liabilities contributes to the efficient delivery of public services and the long-term sustainability of public finances (HM Treasury, 2020). With this in mind, the Institute of Chartered Accountants in England and Wales (ICAEW, 2017) advises governments to use the state balance sheet as a decision-making tool. Measuring the financial and social returns on different investments, such as investments in infrastructure and other assets, could assist them in investment decisions-making.

Traditionally, the focus of financial management in most governments has been on monitoring budget deficits or surpluses and their impact on borrowing. While it is undeniably important to monitor revenues and expenditures effectively, comprehensive financial management goes beyond the short-term management of cash flows. Governments have a fundamental obligation to ensure the efficient management of public finances, which requires a long-term perspective. This includes promoting sustainable economic growth, ensuring intergenerational equity, and creating favourable conditions for future prosperity (ICAEW, 2017). From the various aspects outlined, it is evident that an accurate state balance sheet plays a vital role in the management of public finances and contributes significantly to the achievement of policy objectives.

3. The Role of Supreme Audit Institutions in Public Oversight

Public oversight constitutes an important element of democratic systems, and Supreme Audit Institutions act as independent external public auditors responsible for monitoring the use of public funds. The establishment of Supreme Audit Institutions and the required degree of their independence are usually laid down in the constitution, while the details of their activities are further regulated by law. In Slovenia, Court of Audit is the supreme authority responsible for monitoring state accounts, the state budget and all public expenditure, in accordance with the Slovenian Constitution. In all OECD countries, financial reports of the state are audited by the Supreme Audit Institutions. These audits enable parliamentary oversight of governments and contribute to the optimisation of countries' policies and financial management (European Court of Auditors, 2023). The INTO-SAI-P12 standard states that public sector auditing has an impact on the lives of citizens and that an independent, efficient and credible Supreme Audit Institution is an essential part of a democratic system.

The Member States of the European Union have adopted rules to ensure the responsible and transparent use of public funds and strict oversight of expenditure. Supreme Audit Institutions play a central role in the monitoring of public spending and in the public accountability process, as their independent oversight helps to build citizens' trust in the control system and democracy (European Court of Auditors, 2023). Public sector audits play an important role in most European countries as they promote transparen-

cy of financial statements, curb abuses of power, and support more efficient management of public resources. The call for public sector auditing can be justified within the framework of agency theory, where citizens are treated as principals and politicians as agents (Pimenta de Jesus, Machado de Almeida & Fernandes Gomes Da Silva, 2022); legitimacy theory, where it is driven by the need to present a socially responsible image to legitimise behaviour (Aschauer & Quick, 2024); or institutional theory, where public sector auditing entails linking to larger societal values (Selznick, 1957) thus achieving compliance of actions with socially constructed norms, beliefs and definitions (Suchman, 1995) and enhancing its long-term survival.

The purpose of auditing the state balance sheet is to strengthen the confidence of citizens and other intended users. Therefore, Supreme Audit Institutions play a crucial role in establishing and overseeing accountability of governments. As the outcomes of public audits are likely to have a greater impact compared to private sector audits, Supreme Audit Institutions report not only to the parliament but also to the public (Hay & Cordery, 2020). Cordery, Hay and Simpkins (2016) emphasise that supreme audit institutions play a crucial role in ensuring public sector accountability, which makes it extremely important for them to report identified irregularities transparently. The audit of the state balance sheet is an essential part of the regulatory system, aiming to detect deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of operations early enough to take corrective action (INTOSAI, 1998). Based on the above arguments, an independent external audit is one of the most important safeguards of the integrity of the state final account. Supreme Audit Institutions therefore play a vital role in public oversight.

4. Empirical Research: Analysis of the Audit Reports on the Aggregated Balance Sheet of the Republic of Slovenia

4.1. Research Methodology

The analysis of the audit reports on the aggregated balance sheet was carried out in four steps. The first step consisted of desk research, i.e. collecting the relevant documentation and data for the study. Audit reports on the aggregated balance sheet and post-audit reports on the corrective measures resulting from the audit of the aggregated balance sheet are

publicly available at the CoA website. For the years 2010, 2011, 2012, and 2013, we retrieved the audit reports titled Proposal for the final account of the budget of the Republic of Slovenia. In these years, the audit of the aggregated balance sheet was a part of the audit of the final account and no separate audit opinions were issued on the aggregated balance sheet. For the years 2014–2019, we retrieved separate audit reports on the aggregated balance sheet and post-audit reports on corrective measures. In these years, separate audits were conducted and individual audit opinions were issued. From 2020 onwards, no audit and post-audit reports were issued. We therefore retrieved the Annual reports of the CoA for the years 2020, 2021, 2022, and 2023, and confirmed that in this period audits on the aggregated balance sheet were not conducted.

Based on the collected documents, the second step consisted of the preparation of a chronological overview, i.e. identification of periods with different audit approaches. In the third step, the analysis focused on the period from 2014 to 2019, during which the CoA issued individual audit opinions on the aggregated balance sheet. For this period, audit opinions, along with the bases for opinion and corrective measures were examined. And lastly, in the fourth step we identified the challenges faced by the preparers of the state aggregated balance sheet and by the CoA in conducting the audit.

4.2. Chronological Overview of the Periods with Different Audit Approaches

The period from 2010 to 2013: aggregated balance sheet is audited as part of the audit of the final account, no separate audit opinions are issued. The aggregated balance sheet has been a mandatory part of the final account of the Republic of Slovenia since 2010 (Act on Amendments to the Public Finance Act, 2010) and was first prepared as of 31 December 2010. The audit of the first aggregated balance sheet was carried out in 2011. Until the end of 2013, the audit of the aggregated balance sheet was part of the audit of the final account of the Republic of Slovenia. However, the findings resulting from the examination of the aggregated balance sheet had no influence on the audit opinion of the CoA on the final account.

The audit of the aggregated balance sheet as part of the final account audit was limited in scope, as the CoA only reviewed the most significant items. In 2010, the CoA examined the following five items of the aggregated balance sheet: Non-Current Financial Investments, Property, Plant

and Equipment, Claims for Assets, Given in Use/Management, Cash, and Other Current Receivables. Eight most significant items were subject to review in 2011 (in addition to previously examined categories, Cash Equivalents at Banks and Other Financial Institutions, Accounts Payable to Other Budget Users, and Other Accounts Payable were added), nine items in 2012 (Other Non-Current Operating Liabilities were added), and seven items in 2013 (less significant items were excluded). The CoA verified whether all direct users of the state budget were included in the aggregated balance sheet and performed a limited number of checks on the most important items, taking into account the risks identified, with a focus on larger budget users.

From the very beginning of the preparation and auditing of the aggregated balance sheet, the CoA pointed out issues related to the valuation of assets, the problem of proof of ownership, and the lack of adequate analytical records. However, these findings had no influence on the final audit opinion on the final account. In its audit reports for the period 2010–2013, the CoA stated that it did not express an opinion on the aggregated balance sheet because, apart from the provision in the Public Finance Act on the inclusion of the aggregated balance sheet in the final account, neither its definition nor its purpose or method of preparation were specified. The CoA stated in its audit reports that its audits were aimed at pointing out the deficiencies identified. The main errors and irregularities identified were also addressed by the necessary corrective actions (Court of Audit of the Republic of Slovenia, 2011; Court of Audit of the Republic of Slovenia, 2012; Court of Audit of the Republic of Slovenia, 2013; Court of Audit of the Republic of Slovenia, 2014).

The period from 2014 to 2019: separate audits of the aggregated balance sheet are conducted, individual audit opinions are issued. Between 2014 and 2019, the CoA conducted independent separate audits of the aggregated balance sheet of the Republic of Slovenia. In these audits, it issued an individual audit opinion, apart from the audit opinion on the final account of the state budget. The CoA independently decided to change the audit approach to the audit of the aggregated balance sheet as of 31 December 2014. This was done because the Public Finance Act refers to the aggregated balance sheet as an integral part of the final account of the budget of the Republic of Slovenia and prescribes the mandatory audit of the final account, but does not specify how the audit of the aggregated balance sheet should be performed. In all years in which a separate audit of the aggregated balance sheet was performed, the CoA refused to issue

an audit opinion due to the lack of sufficient and appropriate evidence to confirm the stated balance sheet items (Court of Audit of the Republic of Slovenia, 2015; Court of Audit of the Republic of Slovenia, 2016; Court of Audit of the Republic of Slovenia, 2017; Court of Audit of the Republic of Slovenia, 2018; Court of Audit of the Republic of Slovenia, 2019; Court of Audit of the Republic of Slovenia, 2020). Further details on the specific findings of the aggregated balance sheet audits in the period 2014–2019 are presented in Section 4.3. Analysis of the audit reports for the period 2014–2019.

The period from 2020 onwards: no audits of the aggregated balance sheet, no audit opinions issued. The CoA did not audit the aggregated balance sheet of the Republic of Slovenia for the years 2020, 2021, and 2022. The Annual Report (Court of Audit of the Republic of Slovenia, 2022) states that the CoA did not audit the aggregated balance sheet for 2020 because it concluded that the main deficiencies that had previously resulted in a disclaimer of opinion had not been adequately addressed. Furthermore, the report states that the Court also performed a preliminary audit of the 2021 aggregated balance sheet to determine whether the preparers had made sufficient progress in the key areas that had previously led to the disclaimer of audit opinion. As no audit was performed for the year 2021, it can be concluded that, based on the preliminary audit, the auditors again determined that progress on the problematic items in the aggregated balance sheet was insufficient. The Annual Report 2022 (Court of Audit of the Republic of Slovenia, 2023) does not mention the state aggregated balance sheet and its audit. This is in line with the list of audit reports publicly available on the website of the CoA,¹ which also confirms that the last audit of the aggregated balance sheet of the Republic of Slovenia was carried out on the balance sheet as of 31 December 2019.

It is important to emphasise that in 2021 the deadlines for the implementation of corrective measures in key areas, which formed the basis for the disclaimer of opinion, expired. Therefore, it would be useful and beneficial for the CoA to carry out the audit of the aggregated balance sheet. This would allow the public to gain insight into the implementation of the government's multi-year activity plans and the accountability expected of the government and its ministries.

¹ The list of audit reports is available at the website of the Court of Audit: <https://www.rs-rs.si/revizije-in-revidiranje/arhiv-revizij/?fs=zbirna+bilanca+stanja>

According to the Public Finance Act, the audit of the aggregated balance sheet is mandatory, but it has not been carried out in the last three years. In view of the doubts about progress after a period of ten years of regular audits and required corrective measures, a question can be raised about the responsible conduct of the preparers of the aggregated state balance sheet. Also, the absence of an audit in the critical year 2021, when the deadlines for corrective actions had expired, also raises questions about the effective oversight by the CoA.

4.3. Analysis of the Audit Reports for the Period 2014–2019

Throughout the period of separate audits of the aggregated balance sheet (2014–2019), the CoA issued a disclaimer of opinion because the auditors were unable to obtain sufficient and appropriate audit evidence to confirm the accuracy of the balance sheet items reported. Despite conducting reviews of key balance sheet items (2010–2013) and independent separate audits (2014–2019) over a period of ten years, it has not yet been able to confirm the true and fair presentation of certain key balance sheet items.

Table 1 lists the problematic items of the balance sheet that formed the basis for a disclaimer of opinion in the respective years. For the purpose of comparison between years, the items are shown as a percentage of total assets of the aggregated balance sheet.

Table 1: *Unconfirmed items of the aggregated balance sheet of the Republic of Slovenia for the period 2014–2019 (% of total assets)*

	2014	2015	2016	2017	2018	2019
Property, Plant and Equipment	19.05	19.04	22.02	21.65	21.27	21.89
Claims for Assets, Given in Use/ Management	10.50	10.18	9.33	9.03	8.75	8.78
Non-Current Financial Invest- ments	11.48	7.69	-	-	-	-
Non-Current Accounts Receivable	0.64	0.69	0.03	-	-	-
Current Accounts Receivable	-	-	-	0.53	-	-
<i>Total</i>	<i>41.6</i>	<i>37.60</i>	<i>31.38</i>	<i>31.21</i>	<i>30.02</i>	<i>30.67</i>

Source: Authors based on Court of Audit of the Republic of Slovenia (2015; 2016; 2017; 2018; 2019; 2020).

Table 1 shows that the number of unconfirmed balance sheet categories decreased during the period under review. Together with the reduced number of problematic items, the percentage of unconfirmed total assets fell from 41.67% in 2014 to 31.38% in 2016. It then remained at around 30% until 2019. The two items that accounted for the largest share of unconfirmed total assets in each year were Property, Plant and Equipment and Claims for Assets, Given in Use/Management.

When irregularities are discovered that are not corrected during audits, the CoA requires reporting on corrective measures in response reports. Direct budget users are obliged to submit a response report within 90 days of the audit report (Court of Audit of the Republic of Slovenia, 2018). The audit reports show that direct budget users address minor errors and irregularities, such as the elimination of double entries, updating of individual entries in the land register and similar already during the audit process. For more significant irregularities that are not dealt with during the audit, formal corrective measures and the submission of a response report are required. Table 2 shows the required corrective measures and the audit opinion on the corrective measures as reported in the post-audit reports.

Table 2: Overview of required corrective measures and audit opinion on corrective measures

Year	Direct budget user	Aggregated balance sheet item	Required corrective measure	Audit opinion on corrective measure
2014	Government	Property, Plant and Equipment	Action plan to address the irregularities in the field of property, plant and equipment (2018–2021)	Satisfactory
			Adoption of instructions on inventory of assets and liabilities	Partially satisfactory (1)
		Non-Current Financial Investments	Action plan to align the non-current financial investments with audited company data	Partially satisfactory (2)
		Claims for Assets, Given in Use/Management	Action plan for organising records of claims for assets, given in use/management (2015–2016)	Satisfactory

2015	Ministry of Finance	Non-Current Accounts Receivable	Agreement between the Ministry of Finance and the Succession Fund	Satisfactory
			Plan on recording business transactions, carried out by SID Bank on behalf and for the account of the Republic of Slovenia	Satisfactory
2016	Government	Non-Current Financial Investments	Alignment of the Act establishing the Succession Fund with the Republic of Slovenia Succession Fund and the High Representative for Succession Act	Satisfactory
		Claims for Assets, Given in Use/Management	Implementation of 2014 action plan and preparation of new action plan for activities not yet carried out (2018)	Satisfactory
2017	Government	Claims for Assets, Given in Use/Management	Action plan for establishing control over assets, given in use/management (2018–2021)	Satisfactory
	Ministry of Infrastructure	Property, Plant and Equipment	Action plan for establishing a system for timely activation of assets under construction (2018–2020)	Satisfactory

(1) Draft instructions on inventory of assets and liabilities were prepared, but were not adopted.

(2) The government proposed aligning the status of non-current financial investments with a one-year delay.

Source: Authors, based on Court of Audit of the Republic of Slovenia (2015a; 2016a; 2017a; 2018a).

As can be seen from Table 2, corrective measures relate primarily to the items of the aggregated balance sheet that form the basis for a disclaimer of opinion. The table reflects the fact that the majority of the corrective measures are assessed as satisfactory, indicating progress in the accuracy of the items of the aggregated balance sheet and a decreasing number of problematic categories.

Budget users for whom the CoA requires corrective measures must describe the activities taken and provide evidence of their implementation in their response report. Corrective measures are divided into one-off activities and action plans. Action plans are multi-year corrective measures in the form of a sequence of activities designed to address systemic irregularities reflected in the inaccuracy of individual items in the balance sheet.

The action plan must contain a list of activities, the persons responsible, and the deadlines for implementing the activities.

When analysing and evaluating corrective measures, particular attention should be paid to the multi-year action plans. The areas addressed by the adopted action plans primarily include Property, Plant and Equipment and Claims for Assets, Given in Use/Management. It is important to emphasise that the audit opinion on corrective measures that comprise multi-year action plans does not reflect their actual implementation, but a plan that may be implemented, partially implemented or not implemented by the end of the specified timeframe.

The 2021 annual report of the CoA (Court of Audit of the Republic of Slovenia, 2022) shows that the audit of the aggregated balance sheet as of 31 December 2020 was not carried out because the main deficiencies that had previously resulted in a disclaimer of opinion had not been adequately addressed. The audit was not carried out in 2022 either. It can therefore be concluded that the action plans adopted in the areas of Property, Plant and Equipment and Claims for Assets, Given in Use/Management were either not implemented or were only partially implemented.

5. Challenges of Auditing the Aggregated Balance Sheet of the Republic of Slovenia

The analysis of the audit reports and corrective measures highlights the challenges that arise in the context of the audit of the aggregated balance sheet of the Republic of Slovenia. Challenges arise both in the preparation of the balance sheet on the part of the State and in the performance of the audit on the part of the CoA. Although the repeated disclaimer of opinion is cause for concern, the main problem are the systemic irregularities reflected in the unconfirmed categories of the balance sheet which imply inefficient management of state assets.

5.1 Challenges for the State as the Auditee

Failure to implement action plans. The action plans presented in the direct budget users' response reports for the period 2014–2019 were assessed by the CoA as satisfactory or partially satisfactory. The response reports are official documents and the direct budget users who prepared the action

plans indicated the deadlines for implementation and the persons responsible, thereby committing themselves to carry out the planned activities. Theoretically, the plans can represent satisfactory measures, but they are no guarantee of results and progress. Action plans address the main weaknesses, namely errors and irregularities in Property, Plant and Equipment and Claims for Assets, Given in Use/Management. Failure to implement them means that the deficiencies will continue in the future and will result in repeated disclaimer of audit opinion. Our analysis confirmed that the government and ministries have not fully implemented the commitments made in the response report, nor have explanations been provided on the activities implemented and not implemented, the reasons for lack of implementation or any extensions of deadlines for implementation.

Inadequate control of state property. Inadequate control of property, owned by the Republic of Slovenia, was a key challenge in the period 2014–2019. This was reflected in the lack of a central register of state property, incomplete records of budget users' property and incomplete records of assets, given in use/management to budget users. The weaknesses related to the state's property therefore represented a major impediment to the delivery of an audit opinion. The main challenge in this area over the last ten years has been the process of establishing a functioning unified control over state assets. As reported on the website of the Ministry of Public Administration, the project was completed in late 2023. However, its accuracy has not yet been examined within the aggregated balance sheet audit by the CoA.

Asset valuation. Certain specifics of the public sector are not defined in accounting standards and laws, which means that in some cases the CoA is not in a position to assess the accuracy of the accounts. The problem arises in areas that are not defined in the applicable accounting framework. If the framework does not specify a precise valuation methodology, practices may vary between budget users and the CoA has no basis to assess the true and fair presentation of asset value. For example, in accordance with Art. 32 of the Accounting Act, assets in the public sector are valued at purchase value. Where the purchase value is not known, they are valued at appraised value. In the public sector valuation by chartered real estate valuation surveyors is associated with high costs due to the complexity of the valuations, and the CoA does not require measures that would result in disproportionately high costs for budget users.

Another example of the asset valuation problem are assets of special significance (e.g. heritage assets). The CoA examined the value of state-

owned castles when auditing the aggregated balance sheet as of 31 December 2019 (Court of Audit of the Republic of Slovenia, 2020). These are recorded by the Ministry of Culture at the value that represents the sum of total investments for the period from 1997 onwards. The CoA anticipates that as a consequence, castles will be overvalued in the future because no accumulated depreciation is recognised for assets of cultural and historical significance. It highlights the lack of a uniform valuation methodology and emphasises the importance of the active role of the Ministry of Culture in defining an appropriate and uniform methodology. In the 2018 and 2019 audits, the CoA recommended that the Ministry of Finance and the Ministry of Culture conduct a substantive debate on the appropriate valuation of cultural heritage and prepare a legal act setting out the valuation methodology. The two ministries have not yet developed a valuation methodology for properties with cultural heritage status.

5.2. Challenges for the Court of Audit as the Auditor

Insufficient call for accountability of the government and state administration. The CoA's decision not to audit the aggregated balance sheet for 2020 is understandable in light of the emergency situation at the time of the COVID-19 pandemic. However, the subsequent decisions not to carry out further audits in 2021 and 2022 are somewhat surprising, especially as the deadlines for implementing the most important action plans expired in these years.

By deciding not to conduct the audit for 2020 and beyond, the CoA has avoided issuing another disclaimer of opinion (given the preliminary audit on the progress in key areas) and calling on the government and state administration to take responsibility for the non-implementation of activities. As calls for accountability are an important element of transparency of public finances, further audits of the aggregated balance sheet are necessary.

Non-transparent progress reporting. In the period 2014–2019, the CoA performed annual audits and presented the basis for the disclaimer of opinion for each individual item for each audit period. For each item, the CoA presented the relevant audit disclosures, including errors, irregularities and risks (Court of Audit of the Republic of Slovenia, 2020).

For the items that formed the basis for the disclaimer of audit opinion, the CoA disclosed the reasons, the amounts of the balances that could not be confirmed, and the percentage of the total assets. In the case of

Property, Plant and Equipment and of Claims for Assets, Given in Use/Management, the disclosed non-confirmable percentages refer to the entire problematic category, reflecting the fact that the auditor was unable to assess the extent of possible errors and irregularities due to the nature of the systemic irregularities (Court of Audit of the Republic of Slovenia, 2016a). Consequently, it is difficult to identify progress made in individual problem areas. Audit and post-audit reports do not contain year by year comparisons, nor do they provide the data on the basis of which a quality analysis of progress could be made. Furthermore, audit and post-audit reports do not consistently and systematically report on the implementation of the action plans. As a result, users of audit reports can only determine progress in reporting through their own individual analysis of the content of the audit reports.

6. Conclusion

The paper aims to raise awareness and initiate discussion about the importance of the state aggregated balance sheet and its auditing. In the paper we present the aggregated balance sheet and explain how it provides a comprehensive overview of the state's financial position, ensures transparency of public finances and provides an alternative way to identify sources of risk in the public sector. We emphasise that the aggregated balance sheet provides opportunities for better asset and liability management and is therefore an indispensable part of effective public financial management. We also explain why only an audited balance sheet provides an adequate basis for decision-making.

Based on the analysis of audit and post-audit reports, we identified challenges in the audit of the aggregated balance sheet of the Republic of Slovenia. The challenges faced by the state as the auditee include failure to implement activity plans, which hinders progress in the quality of reporting, inadequate control of the state property, which is reflected in errors and irregularities related to Property, Plant and Equipment and Claims for Assets, Given in Use/Management as the two most problematic balance sheet items and the valuation of assets in the part not covered by the current accounting framework. The challenges faced by the CoA include the problems related to the insufficient call for accountability of the government and state administration and the way in which the audit reports are presented, which does not allow for transparent monitoring of progress.

In order to improve the quality of state reporting, the first necessary measure was the introduction of a comprehensive and uniform solution for the control of state property. This complex project was completed in late 2023. Although its accuracy has not yet been verified in an audit by the CoA, the completion of the project alone, which was listed for the first time in the 2014 audit report among the required corrective measures, indicates a step forward in the quality of reporting.

Another important measure that is expected to further contribute to the quality of reporting is the development of accounting solutions for areas that are currently not covered by the accounting framework, such as cultural heritage. Furthermore, to avoid enduring ambiguity, the Public Finance Act should be supplemented with clear guidance on how the state aggregated balance sheet is to be audited. To enable monitoring of progress, the act should also require the inclusion of year by year comparisons and progress reporting in the audit reports.

The objective of auditing the state aggregated balance sheet is to detect deviations in reporting deviations from accounting standards, to hold the government and state administration accountable, and to increase the confidence of citizens and other stakeholders in the state financial statements. As there has been no prior research on auditing the aggregated balance sheet in Slovenia and as only limited empirical evidence exists in this particular area of research, this paper aims to identify the existing challenges in the area that hinder progress in the quality of reporting.

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AUDITING THE AGGREGATED BALANCE SHEET OF THE REPUBLIC OF SLOVENIA: CHALLENGES FROM AUDITOR AND AUDITEE PERSPECTIVE

Summary

The study investigates the complexities of the annual audit of the aggregated balance sheet of the Republic of Slovenia, mandated since 2010, shedding light on a critical yet under-researched area of public sector audits. The Court of Audit of the Republic of Slovenia, entrusted with this task, has consistently expressed disclaimer of opinion since 2014, when it began conducting separate audits and issuing individual audit opinions on the aggregated balance sheet. Disclaimer of opinion resulted from the lack of sufficient and appropriate audit evidence, revealing systemic problems in controlling state property, inconsistencies in asset valuation and others. Notably, this undermines the credibility of the aggregated balance sheet as a decision-making tool, raising questions about the accountability of preparers and decision-makers. The study analyses the audit reports on the aggregated balance sheet of the state, delving into challenges from both the auditor and auditee's perspective. The challenges faced by the state as the auditee involve failure to implement activity plans, inadequate control of state property and asset valuation beyond the current accounting framework. On the other hand, the Court of Audit encounters challenges in insufficient call for accountability of government and state administration and non-transparent progress reporting. Addressing these challenges, a comprehensive solution for control of state property was implemented in late 2023, indicating progress in reporting quality. Measures that are expected to further contribute to the quality of reporting in the future include developing accounting solutions for areas not currently covered by the accounting framework and amending the Public Finance Act with guidance on how the state balance sheet is to be audited. To enhance monitoring, the act should also mandate year-by-year comparisons and progress reporting in audit reports.

Keywords: public sector auditing, final account of the state budget, state balance sheet, Supreme Audit Institutions, audit opinion, corrective measures, Slovenia

REVIZIJA KONSOLIDIRANE BILANCE REPUBLIKE SLOVENIJE: IZAZOVI IZ PERSPEKTIVE REVIZORA I OBEVZNIKA REVIZIJE

Sažetak

Rad istražuje složenost godišnje revizije konsolidirane bilance Republike Slovenije, osvjetljavajući kritično, ali nedovoljno istraženo područje revizija javnog sektora. Državni ured za reviziju Republike Slovenije provodi reviziju od 2010. godine, ali se od izdavanja mišljenja suzdržava od 2014. godine kada je počeo provoditi zasebne revizije i izdavati pojedinačna revizijska mišljenja o konsolidiranoj bilanci. Suzdržano mišljenje odraz je nedostatka dostatnih i odgovarajućih revizijskih dokaza koji otkrivaju sustavne probleme kontrole državne imovine, nedosljednog vrednovanja imovine te drugih razloga. Prepoznati problemi potkopavaju vjerodostojnost ukupne bilance kao alata za donošenje odluka, ali i postavljaju pitanja o odgovornosti osoba koje pripremaju i donose odluke. Rad analizira revizorska izvješća o ukupnoj bilanci države te utvrđene izazove razmatra iz perspektive revizora i perspektive obveznika revizije. Izazovi s kojima se susreće država kao obveznik revizije uključuju neprovođenje planiranih aktivnosti, neodgovarajuću kontrolu državne imovine i vrednovanje imovine izvan postojećeg računovodstvenog okvira. S druge strane, izazovi na koje nailazi Državni ured za reviziju vezani su uz nedostatan pozivanje na odgovornost vlade i državne uprave te netransparentno izvješćivanje o napretku. Rješavanje tih izazova potaknulo je krajem 2023. godine implementiranje sveobuhvatnog rješenja za nadzor državne imovine i unapređenje kvalitete izvješćivanja, što upućuje na napredak u kvaliteti izvješćivanja. Mjere za koje se očekuje da će dodatno pridonijeti kvaliteti izvješćivanja u budućnosti uključuju razvoj računovodstvenih rješenja za područja koja trenutačno nisu obuhvaćena računovodstvenim okvirom te izmjene i dopune Zakona o javnim financijama smjernicama o načinu revizije državne bilance. Zakon bi radi poboljšanja nadzora trebao propisati i obvezu usporedbe stanja pojedinih analiziranih kategorija iz godine u godinu te izvješćivanje o napretku u revizorskim izvješćima.

Ključne riječi: revizija u javnom sektoru, završni obračun državnog proračuna, državna bilanca, najviše revizijske institucije, revizorsko mišljenje, korektivne mjere, Slovenija