IMF RECOMMENDATIONS ON THE OBSERVANCE OF STANDARDS AND CODES OF ACCOUNTING AND AUDITING BASED ON REPORT - REPUBLIC SLOVENIA CASE

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Abstract:
The recommendation of IMF Report sketches the general policy to enhance the quality of corporate financial reporting. The Report strongly recommends establishing a multidisciplinary National Steering Committee (NSC) for accounting and auditing reform and advises policymakers, regulators, and other stakeholders regarding the implementation of the recommendations. Based on the successful experience of other countries the Report recommends that the NSC develops a Country Strategy and a detailed Country Action Plan (CAP) to enhance the quality and availability of financial reporting.

1. SUBJECT, DEFINITION AND OBJECT

1.1. Auditing and auditing object

A term “revision” originates from Latin world »revidere«, what in translation means “once again to take view into the last corrigendum” and in accordance with it means additional review and verification of different processes and components. The English world “audit” becomes from Latin world »audire«, what means “to be heard”. The same original meaning of world “auditor” is the listener. The world is used long time ago, when the financial reports were approved after they were publicly read to audience by competent accountants. "1

Auditing is broadly defined as a »systematic procedure of neutral acquisition and evaluation proofs connected with official statements of business activities and events to establish the level of harmonization of those public statements according to accepted principles and reporting of results the interested party«2 In the usual sense of the word the auditing can be classified regarding to purpose of their activities to:

- Auditing financial reports,
- Auditing according to rules, and
- Operational auditing.

With regard to connection between the audit activity performers we determine external and internal auditing as well as public auditing. It is executed by public servants. For example the officials of state agency verifies accordance to regulations, administration of Taxes deals with taxation and superior auditing institution examines programs, activities and execution of different state administration sectors. The main stress of public auditing presented in papers delivered at the symposium conference is public internal auditing.

1.2. Conception of audit, internal audit, budget and budget execution auditing

Determination according to the opinion of author Kranjčević3 the term audit originates in Latin word »revisum«, what means examined or looked over subsequently for investigation and estimation. Between different conceptions of the term audit the most definitions deals with accounting auditing. This is understandable because this term was the first established. In the year 1923 Grasgruen defines auditing as general and additional examination of operations by reviewing the company books like the general ledger by employment the special external authorized persons.4

The term internal auditing is determined in technical literature. »Internal auditing presents by external audit a couple of critical and subsequent verification former past events in organization that is with a distinction performed by competent internal body of organization that is examined.«5

In a Book „Kontrola i revizija poslovanja“ the author dr. Kranjčević already in a year 1966 presented the reasons for establishing the internal audit body. It depends of an enterprise grow, interruptions in company, unreliable internal control and insufficiency of external audit.

Development of internal auditing was at the beginning under a strong USA American influence of activity known as Internal Audit, later in Germany, known under term Internre Revision or Pruefung. Educational Committee of the Institute of Internal Auditors defined internal auditing as »an activity in helping to improve business and toachieve maximalsuccess«6.

After Slovenian independence The Company Law (ZGD) for economic enterprises was accepted. So the demand for auditing financial reports of companies got the legal base and auditing activities in state were established. Auditing activities were regulated by Auditing Law. In fact there were lack of auditing expert workers in state so the different activities for overcoming sufficiency were undertaken. The Slovenian Association of Accounting and Financial Laborers were included in that activity together with Austrian experts framed with the Academy of economic auditors.7 They organized the eleven weekend’s intensive colloquium for selected participants which finished it with an adequate attestation.

Due to Auditing Act The Slovenian Institute of auditors (SIR) was established. It is the official subject to take care for law provisions, education and professional association on auditing field. It also certifies The Institute’s educational courses and gives attestations and marks for the participation on educational conferences. SIR takes care for professional development by

1 Whittington, O.R. at all, Principles of Auditing, IRWIN, Homewood 1992, str. 7
2 Taylor, Donald, Revidiranje; zašnove in postopki, Slovenski inštitut za revizijo, Ljubljana, 1996,p. 32
3 Franjo Kranjčević, Revizija i kontrola, Informator Zagreb, 1972, str. 9
4 Grasgruen, A: Revisionen, Berlin, 1923, str. 289, ,page 9
5 Remark at 4, str. 11
7 Akademie der Wirtschaftstreuhänder, 1121 Wien, Schoenbrunner str. 222-228
The purpose of Municipality budget is to finance following municipality’s duties:
- Operational activities,
- Public services,
- Contributions to public services,
- Fire precautions,
- Protection against nature disasters.

In Public Finance Law (ZJF) accepted in year 1999 is budget principle for public finance in Republic of Slovenia are as follows:
- Principle of macroeconomics stability anticipates the deficit should be lower as possible.
- Principle of thriftiness. For reasons of economy budget resources are used just for financing state and municipalities duties based on law.
- Principle of efficiency and economy is demand that available means of finance ensures maximal result.
- Principle of analyzing cost and benefit. Measures with huge finance consequences should be the matter of argumentation.
- Principle of budget equilibration. The budget incomes and outcomes should be balanced.
- Principle of Integrity. In a state and municipality budget should be attested all incomes and outcomes.
- Principle of gross budget. Incomes and outcomes should be attested as a gross value without mutual interaction or settlement.
- Principle of integral covering or the principle of unbound connection between incomes and outcomes. Taxes should be designed for budget general finance purposes without prior intention. All collected money should be gathered and then distributed.
- Principle of one-year budget. All budget incomes and outcomes should cover 12 months.
- Principle of previous confirmation. Budget should be attested by parliament - Assembly of state.

European Union budget proposal

All EU institutions and agencies should according to internal procedures prepare estimations for budget draft till July 1st. The Commission all estimations incorporate in budget proposal and submit it to Council and European Parliament till September the 1st.

Council takes position of budget proposal including with eventual observations and propose it to European Parliament no later than October the 1st. Council keeps European Parliament informed about the reasons for acceptance own standpoint of budget proposals.

The budget procedure in Slovenia

The comparison between budget principles in Slovenian and European Union jurisdiction shows similarities between them.

Public finance Law in Slovenia (ZJF) settles the budget procedure in four stages:
- Stage 1: preparing budget proposal – governmental function,
- Stage 2: acceptance of budget proposal – parliament function,
- Stage 3: budget execution – particular budget beneficiaries,
- Stage 4: reporting and exercise control over budget execution.

There are 212 municipalities in Slovenia. Eleven of them are city municipality and others are ordinary. With regard to budget height there is different dependence of internal audit activities.

Municipalities are financed through three sources:
- Original incomes – the main source is municipality income tax.
- State funds should be used to appropriate way.
- Municipally can statutory defined get into debt under defined conditions and restrictions:
  - Debt should be a part of municipality’s budget,
  - It is required for municipality to acquire a conformity from Ministry for finance,
  - Extension of debt should be lower than 10% annual revenues,
  - Payment for principal and interest should not to exceed 5% budget annual revenues.

Some of original sources are property tax and tax on gambling incomes, and some others. In a year 2014 there were introduced real estate tax on base of official evidence in Geodesic register (GURS) and Land register.

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In Public Finance Law (ZJF) accepted in year 1999 is budget supervision defined by a direct budget beneficiary as follows:

- Principle of budget unitarily,
- Principle of special of time period,
- Principle of budget preliminary,
- Principle of budget unity and integrity,
- Principle of universality,
- Principle of equilibration,
- Principle of separation,
- Principle of thriftiness and economy,
- Principle of gross attestation,
- Principle of objective specialty.
“Financial supervising is a system of internal controls and internal auditing that is valid for all agencies and organizations under their competence.”

Internal auditing is a subsequent financial reporting audit and efficiency, economy and effectiveness. The internal control system and internal auditing should be supplemented with re-establishing organizations of internal auditors. They are acting within the framework of direct State budget beneficiary.

Ministry competent for finance, finance supervision and budget inspection has the competences to act at following matters:

- Inspection of budget expenditures,
- Subsequent accounting and finance auditing and checking the efficiency, economy and effectiveness of common projects between different users of state budget,
- Preparative arrangements for common directions for internal auditing activities by direct state and municipality budget users.11

1.3. The objects and subjects of public auditing and internal auditing

The legal bases for public auditing objects are Public finance Law and Book of regulations for harmonized system of public finance internal audit activities.12

The Slovenian Court of accounts

Activities of auditors in Slovenian Court of accounts are based on the auditing standards and directed by guidelines. They were edited by International organization INTOSAI (International Organization of Supreme Audit Institutions) and INTOSAI Guidelines (European implementing guidelines for the INTOSAI auditing standards). Auditors solve some unsettled audit cases by reasonable use of IFAC Standards established (International federation of Accountants).

Auditing in framework of Slovenian Ministry of finance

Slovenian Bureau for budget supervision has the mission to perform different control activities relating expenditure of public resources. With their activities they make direct and indirect efforts for legally, purposely and clearly use of national budget means and spending of EU budget funds. They directly control past expenditures with intention for futurepublic budget funds consumption in future should be in accordance with legitimate anticipation. With indirect activities they are included in internal control system restoration and improvement due to legal and proper public funds expenditure. Subjects of their supervising are all institutions and national and EU budget funds recipients.

Bureau their mission execute on following fields:

- Systems of internal public finance supervision, education operations for internal control activities and internal auditing trainings;
- Independent supervision of execution and consumption of European funds;
- Inspectorship of public budget;
- Directing and coordination to protect financial interests of European Union and fight against fraud.
- Bureau strives for excellence and for highest quality on their working field. They permanent work hard for achieving better working conditions and for employ- ment adequate qualified and educated personnel with high ethical value.
- They try to carry international experience and knowledge in domestic environment by transferring knowledge from international supervising institutions.
- They work researches in domestic and international surrounding.13

Bureau for budget supervision is organized as a central agency for harmonization and coordination of internal supervision in public sector.

Bureau is an independent agency for EU funds finance control and gives accreditation, certifies and verifies attestation of regularity. It also is a point of coordination with European commission for fight against fraud- OLAF and coordinates activities in a field of financial interest of EU and reports irregularity. Important part of its activities is budget inspection.

Agency for agriculture markets and county development

Agency for agriculture markets and county development (AKTRS) was established by Slovenian government in a year 1999 with intention to execute programs SAPARD. They got an accreditation for EKUJS payment funds. They got in 2004 an accreditation as a payment agency14, after establishing internal audit function. (SNR).

Auditing and internal auditing activities were introduced in Slovenian business praxis less than twenty years ago so they are from the science point of view determined as a young knowledge. Internal auditing in public sector performs internal auditors. They should possess a title the public internal auditor or certified public internal auditor. A title can acquire an experienced person with university degree and who performed an exam for the public internal auditor or certified public internal auditor.15

Internal auditor should not practice any executive duty neither have any direct responsibility for audited activities. It should act professionally according to Codex of internal auditing principles and professional ethics as well as standards of professional care in internal auditing.

The Slovenian Institute of auditors

The Slovenian Institute of auditors is a member of different international associations International Federation of Accountants, Federation des Experts Comptables Europeens, (FEE) and organized in different branches. Between them is presented an internal auditors section.

In business environment the duties of internal auditors means «the key to operational excellency». Their job is examination of processes, activities and achieved business objects and consulting to management for continual improvement. They are researchers, reporters and analytics. Their activities are guidance to future activities, changing procedure in current diligence and preparing for new activities due to changing circumstances.

Internal auditors prepare recommendations for improvement of orientations, procedures and processes in all cases where necessity is shown. Internal auditors bring basic conceptions for solving urgent troubles in business activities. Their aim is searching for the best solutions on the basis of perpetual supplementing their skills and consistent preservation their integrity proposed solutions.16

Internal audit section by Institute for auditing connects internal auditing profession on national level ant takes care for internal auditing promotion and their education on national legal basis. Members of internal audit section are auditors, who attended education organized by Institute and acquired professional title certified internal auditor.

Sectional work involves cooperation with the international internal auditors associations The Institute of Internal Auditors, European Internal Auditors Organization and the Institute of Auditors.

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11 http://www.unp.gov.si/si/
12 (Ur. list RS, št. 72/02) (http://www.uradni-list.si/1/ulonline.jsp?urlid=200272&dhid=43594)
13 Urad RS za nadzor proračuna je organ v sestavi Ministrstva za finance
14 Uredba za pridobitev akreditacije plačilne agencije za izplačevanje sredstev Jamstvenega oddelek Evropskega gospodarskega izobraževanja in posameznika v skladu z jamstvenega sklada (Ur. list RS, št. 81/03) http://www.uradnist.si/1/ulonline.jsp?urlid=200381&dhid=64302
15 Pravilnik o izdajanju potrdil za naziv državni notranji revizor sta Zakon o javnih finančah (100. a člen) v Pravilnik o izdajanju potrdil za naziv državni notranji revizor in preizkušeni državni notranji revizor (Uradni list RS, št. 83/2007)
16 http://www.si-revizija.si/iai/
The Agency for Public Oversight of Auditing

The Auditing Act (ZRev-2), that entered into force July 15th 2008, was an important stepping stone in the field of auditing in Slovenia. ZRev-2 helped formally establish the Agency for Public Oversight of Auditing that became operations on March 1st 2009. The director of Agency made a following declaration 17:

“System for public supervision over the quality of the work of auditing companies and certified auditors is extremely important since the trust and responsibility of the auditing profession had to be restored due to a number of larger accounting scandals that occurred in the internationally in the past. Public oversight of the auditing quality is meant to be the institute that would help investors, shareholders, creditors and other interested groups rely on the audited accounting statements. Priority commitments of the Agency are to operate for the benefit of the public, to conduct quality public supervision over auditing, to observe transparency of operations and to respect the moral and ethical values with the purpose of becoming an efficient supervisor of the auditing profession”.

CONCLUSION

In this working paper I have performed the previous achievements on a field of IMF Report for quality corporate financial reporting. The strongly recommendation were considered by establishing Slovenian Institute of auditors with its sections for accounting, auditing, internal auditing, validation, taxation, auditing IS and Agency for Public Oversight of Auditing.

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Božinovska-Lazarevska, Zorica, Transparency Reports as a Red Flag for Quality Assurance IS and Agency for Public Oversight of Auditing.

PIJEDLOZI ZA POŠTOVANJE STANDARDI A PROPISA NA PODRUČJU RAČUNOVODSTVA I REVIZIJE NA OSNOVU IZVEŠTAJA IMF - STANJE REPUBLIKA SLOVENIJA

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Apstrakt:

Preporuke iz Izveštaja IMF pokazuju smer politike v svrhi postizanja večeg kvaliteta poslovnih finansijskih izveštaja u određenoj zemlji. Izveštaj preporučuje uspostavljanje šireg Nacionalnog Nadzorneg Komiteta za reformisanje računovodstva i reviziju, koji treba obezbediti na temelju vodenja politike, regulacije i odstalih subjekata v svrhi uvedbe prijedloga v praksu. Na temelju uspelenog iskustva ostalih zemalja se preporučuje državna strategija i Državni akcioni plan za dostizanje kvalitetnog i primernog poslovno finansijskog izveštavanja.

Ključne reči: Korporativni finansijski izveštaji, Međunarodni standardi finansijskog izveštavanja, Međunarodni standardi revizije, sistemski rizik, poredenja.