Economic activities of the Pärnu County Government and its administered agencies in 2003

Audit Report No 2-5/04/115 of November 3, 2004

Executive summary

The State Audit Office (SAO) has audited the economic activities of Pärnu County Government and its administered agencies, focusing on the legitimacy of economic transactions, the organization of accounting and the proper operation of internal control structures.

Relevant observations and findings about the Pärnu County Government

The County Government has failed to regulate adequately the book-keeping in the County Government and its administered agencies and therefore the standard of accounting practices is not uniform and even deficient in places. There are no common principles or regulations, the establishment of which is the function of the County Government as a central institution, but what the County Government has failed to do so far. Hence, different agencies proceed from different accounting principles which, in places, are in contravention of effective legal acts.

In general, the recognition of bank and cash transactions in the accounts has been governed by the accounting regulations for budgetary institutions and the good accounting practices. However, there were occasions where the rules on the management of cash flows for the state budget or the instruments of the Minister of Finance on the use of non-group accounts in the activity of the agency were not respected. Further, cash at hand had not been checked.

Material misstatements were detected in accounting for fixed assets and therefore the accounting data and the financial reports based thereon fail to provide a true and reliable view of the value and condition of assets. Internal control procedures were insufficient for ensuring the disclosure of all assets of all agencies and the fair value of those assets in the books and the state assets register. Transactions with fixed assets have been carried out without instruction from the County Governor; hence the County Governor as the manager of the state property does not have an overview of the value and condition of the assets under his supervision.

The Ministry of Social Affairs has not made the deed of reception on the renovation of the building of Pärnu Children's Home and on the fixed assets acquired, under which the said assets would be transferred to the children's home, thus the fixed assets of the children's home are not recorded at fair value.

Accounting for revenues and liabilities is not consistent with the requirements laid down by the Minister of Finance. In particular, there are material misstatements in revenues from privatization and economic activities. In our opinion, the internal controls are insufficient for ensuring that all revenues are correctly recorded in the books.

There are also material deficiencies in accounting for personnel costs: deficient is accounting for holiday reserve, tax balances have not been reconciled with the Tax Board reports or the difference has not been substantiated, taxes on fringe benefits have not been paid. Insufficient internal control procedures do not safeguard the legitimacy of all transactions or entry of accurate data in the books.

Main proposals

To the Governor of Pärnu County

- Establish the necessary work regulations that would provide for common accounting principles in book-keeping and for internal control procedures, first and foremost for the County Government itself as well as for its administered agencies.

- Improve the internal accounting policies and internal control procedures within the administration area in order to ensure lawfulness in the management of cash flows for the administered agencies and the correct count of cash at hand that would give assurance about

the existence and preservation of the financial resources of the agencies.

- Reconcile the data in the state assets register with the accounting data. Appraise the assets within the administration area pursuant to the general accounting rules of the government and record the assets in the books at fair value. Idle assets should be disposed of or put to purposeful use. Internal controls should be improved to ensure compliance with effective regulations.

- Arrange for the functioning of the finance department and the land department in such a way that, in respect of the sale of land, the timely receipt of accurate data in the accounts department as well as the availability of current information would be granted. Improve the internal controls so as to ensure that the accrual basis is used for the recording of revenues and liabilities in the books and the receipt by the National Treasury of the revenues subject to transfer to the state budget.

- Improve the internal controls so as to ensure the legitimacy of transactions related to personnel expenses, including accounting for vacation reserve, taxation of fringe benefits etc. Design and establish common principles on business trips, including the preparation of directives and reports and the payment of daily allowances.

- Improve the internal control structures so as to ensure compliance with the Public Procurement Act and the Value Added Tax Act.

In his reply, the acting Governor of Pärnu County stated that he accepts, in general, the shortcomings highlighted in the audit report and that part of them have been eliminated by now or remedial action has been envisaged for the near future.

To the Minister of Social Affairs

- Clarify the volume of renovation works carried out on the building of Pärnu Children's Home during 2001-2002 and the volume of acquired fixed assets, and transfer the latter to the children's home.

The Ministry of Social Affairs has announced that the volume of renovation works performed on Pärnu Children's Home in the period from 2001 to 2003 and the volume of acquired fixed assets has been ascertained and the assets have been transferred to the children's home with the deed of 20 September 2004.

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