

Organization of accounting within the area of administration of the Ministry of the Environment in 2004

Audit report No. OSIV-2-6/05/111 of August 23, 2005

Summary

The goal of the audit was to evaluate the organization of accounting within the area of administration of the Ministry of the Environment in 2004 and the work of internal auditors performed during the audit of the annual report.

The audit was prompted by the obligation laid on the SAO by the State Budget Act to prepare an audit report on the consolidated annual report of the government, by expressing an opinion on the fairness of the consolidated report and the legality of transactions. The SAO audit report along with the consolidated annual report as approved by the government must be submitted to the Parliament by the Government of the Republic.

The State Budget Act obligates the person responsible for internal audit in the Ministry to undertake an audit of the annual report of the Ministry and its subordinate agencies; as a result of the audit that person must issue an opinion on the correctness of the Ministry's annual report (which consists of the annual financial report and the management report) and the legality of transactions.

The law allows the SAO, in the course of auditing the annual report of the government, to rely on the opinion of the person responsible for internal audit in a Ministry in respect of the fairness of the annual report and the legality of transactions of a governmental reporting entity (a Ministry). The SAO must decide, on the basis of the work performed by internal auditors and their opinion on the report, if and to what extent it relies on their evaluations for forming its own opinion.

Main observations

Opinion of the person responsible for internal audit

The person responsible for internal audit in the Ministry signed his/her opinion on the correctness of the 2004 annual report of the Ministry and the legality of its transactions on 31 May 2005. In the said opinion he/she pointed out shortcomings in accounting for fixed assets and the manner how fixed assets were used, in making accounting entries, organisation of public procurement, collection of government fees and remuneration policies. It was also mentioned that some of the agencies in the area of administration were not audited. The person responsible for internal audit was of the opinion that if we disregard the possible effect of the aforementioned shortcomings on the financial position of the Ministry, the results of its operations and its cash flows, the annual report of the Ministry of the Environment which shows the balance sheet total in 2004 to be EEK 32,345 million and the loss before settlements with the state budget to be EEK 103 million, is consistent, in the main part, with the general accounting policies of the state.

The opinion of the person responsible for internal audit does not comprise an evaluation of cash expenditures within the area of administration and of the management report.

Organization of accounting

In the audited period, the Ministry failed to meet the requirement of the general accounting policies of the state to establish, in the internal accounting rules of the Ministry, the additional accounting and reporting standards for the agencies within the area of administration. The internal accounting rules consistent with the governmental accounting policies were established on 21 April 2005.

On the audit the SAO identified certain deficiencies in the internal accounting procedures of the agencies within the area of administration of the Ministry.

Due to the limited scope of the audit, the SAO refrains from expressing an opinion on the organization of

accounting within the area of administration of the Ministry as a whole.

Reliance on the opinion of the person responsible for internal audit

The audits undertaken by the internal auditors of the Ministry did not cover the agencies taking up a substantial part of the balance sheet total or the transaction categories having importance due to the large amounts they represent. Planning of audit procedures was not based on risk assessment. Audit procedures were not properly documented. Part of the audits and audit procedures were not completed by the time of rendering the opinion.

The consolidated annual financial report for the fiscal year ended December 31, 2004 of the Ministry of the Environment and the agencies within its area of administration were audited by the external audit firm OÜ Rimess MRI. The external auditors also audited the balance sheets and the statements of revenues and expenditures of the Land Board, the Environmental Inspectorate, the Estonian Radiation Protection Centre and the Estonian Institute for Meteorology and Hydrology and the annual financial report of the State Forest Management Centre.

The person responsible for internal audit has not performed audit procedures for obtaining relevant evidence sufficient to decide whether external auditors focused in their work on higher risks and whether the volume of work performed by them was sufficient for the person responsible for internal audit, by relying on their audit opinion, to render an opinion required by the State Budget Act.

The SAO has no reason to cast doubt on the quality of the work and evaluations of certified auditors conducting an audit of the Ministry and its subordinate agencies, including their opinion on the consolidated report of the Ministry. However, from the point of view of the SAO, the person responsible for internal audit in the Ministry, in order to be able to rely on the work of external auditors, should have carried out his/her own procedures so as to be convinced of the quality of the external auditors' work. Since this was not done, the SAO cannot rely on the opinion of the person responsible for internal audit in respect of the annual report of the Ministry of the Environment. We would also like to point out that without issuing an opinion on the management report of the Ministry, the person responsible for internal audit should not have rendered an opinion on the entire annual report of the Ministry but only on the annual financial statements.

Proposals to the Minister of the Environment

- Ensure that the work practices of the person responsible for internal audit comply with the IIA internal auditing standards and the INTOSAI internal control standards, the general internal auditing rules of governmental departments and the state agencies administered by them, and the generally accepted auditing standards in such a way that in planning and conducting the audit of the Ministry's annual report, the person responsible for internal audit would:
 - assess the risks inside the Ministry and in its area of administration, draw up an internal audit programme on the basis of risk assessments and focus on important transaction classes;
 - prepare working papers on time and in due manner;
 - gather sufficient evidence so as to be able to rely on the work performed by the external auditors involved to fulfil the functions of internal auditors;
 - render an opinion on all components of the annual report of the Ministry, incl. the management report.
- If it is considered expedient to continue involving (certified) external auditors in the audit of the annual report, make provision in the contracts for the purchase of auditing services for the right of the buyer to examine the documentation enabling to evaluate the work performed by external auditors.
- Ensure compliance of the internal accounting procedures of the agencies within the area of administration with the requirements laid down in the internal accounting rules of the Ministry.
- Approve of the methods for assessing the value of state forest and include them in the internal accounting rules of the Ministry of the Environment.
- Ensure that the annual report of the Ministry disclose in the notes the estimated quantities of mineral reserves under the management of the Ministry.

The Minister of the Environment concurred with the recommendations made. In the opinion of the Minister, it would be worth considering the spreading out of deadlines for the completion of different

components of the annual report; in the light of the applicable laws and regulations, the structural units of the Ministry engaged in financial and accounting issues are under enormous workload in the spring period and therefore the quality of the contents of the reports to be prepared may suffer. The reply of the Minister is annexed to this report.

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