

Organization of accounting and legality of transactions within the area of administration of the Ministry of Economic Affairs and Communications in 2004

Audit report No. OSIV-2-6/05/110 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 Economic Affairs and Communications (MEAC) in 2004 and the work of internal auditors performed during the audit of the annual report.

The audit was undertaken with the aim of providing an opinion of the State Audit Office (SAO) on the annual report of the area of administration of the Ministry as a component of the consolidated annual report of the government.

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

The law allows the SAO, in the course of auditing the annual report of the government, to rely on the audit opinion of the person responsible for internal audit in the Ministry in respect of the accuracy of the annual report and the legality of transactions of a government financial 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.

The audit report presents main observations made by the SAO in the course of earlier audits of the agencies within the area of administration of the MEAC – "Organization of accounting and legality of transaction in the Communications Board in 2004" and "Follow-up review on the audit of the 2002 Annual Report and the Report on the state budget implementation by the Estonian Motor Vehicle Registration Centre". Correctness of accounting for revenues and fixed assets in the Estonian Maritime Administration was also evaluated on the audit.

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 accuracy of the 2004 annual report of the Ministry and the legality of transactions on 31 May 2005. In the said opinion he/she pointed out that there were shortcomings in observance of the Public Procurement Act, the State Assets Act and the State Fees Act, that the management and monitoring systems for foreign funding were in need of improvements and that there were errors and irregularities in performing and documenting a physical inventory. According to the opinion of the person responsible for internal audit, 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 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 expressly indicate that the evaluation also covers the management report of the Ministry. According to the explanations given to the SAO, the reason is that no shortcomings were identified in that report.

Organization of accounting

Due to the limited scope of the audit, the SAO has not expressed an opinion on the organization of accounting within the area of administration of the Ministry as a whole.

The internal accounting rules and procedures in the audited agencies within the area of administration of the Ministry were in compliance with the Accounting Act and the general accounting policies of the state. The Ministry's Accounting Unit gives guidance and instructions to the accounting units of the subordinate agencies. However, in the course of audits, the SAO has identified shortcomings in those agencies with

regard to the overall organization of book-keeping and accounting for fixed assets and revenues.

Legality of transactions

The SAO did not discover any serious infringements of rules and regulations in the performance of financial transactions in 2004 and the first half of 2005, as proved by the audits carried out in the area of administration of the MEAC.

Reliance on the opinion of the person responsible for internal audit

During the year, the internal auditors audited about four fifths of the aggregate balance sheet total of the agencies within the administration area.

The SAO finds that on the basis of the audits referred to by the internal auditor in his/her evaluation, no opinion can be rendered on the annual report of the Ministry as a whole. Without evaluating the organization of accounting and the legality of transactions in the Estonian Road Administration and the Estonian Maritime Administration, we cannot express an opinion on the annual report of the Ministry as a whole, as has been done by the person responsible for internal audit in the Ministry. Further, the observations and findings of the person responsible for internal audit concerning the legality of financial transactions should have been more detailed – it should have been reported in which agency and to what extent the errors and irregularities cited in the opinion were committed. The remarks made do not enable to assess the possible effect of identified shortcomings on the reliability of the report.

The internal auditors have within the audited scope proceeded from risk assessments, which coincide with the risk assessment by the SAO, the audit procedures have been performed with sufficient thoroughness and properly documented, but the scopes of audits were too limited. Hence, the SAO cannot rely on the opinion of the person responsible for internal audit in the MEAC for rendering its opinion on the consolidated annual report of the government.

Proposals to the Minister of Economic Affairs and Communications

- Ensure that in performing a physical count of fixed assets and inventories the procedures established in the general accounting policies of the state for the inventory and valuation of assets and liabilities are observed.
- Establish cash handling procedures for subordinate agencies with cash on hand, as required by the general accounting policies of the state.
- In approval of the budgets of the component units of the Ministry, assess in greater detail the need for fixed asset acquisitions and improvements thereto and count them in the budgeting process as investments, not as operating expenses.
- Require that the Director General of the Estonian Maritime Administration provide for accounting for tangible fixed assets in such a manner as to ensure the fair presentation on the balance sheet of the existence and cost of such assets.
- Require the implementation of the action plans prepared for elimination of the shortcomings pointed out in the SAO audit reports.
- Take additional measures so as to avoid the errors and irregularities (shortcomings in compliance with the Public Procurement Act, the State Assets Act, the State Fees Act) cited in the opinion on the annual report of the person responsible for internal audit.

The Minister of Economic Affairs and Communications did not question any of the findings or recommendations made by the State Audit Office. The response of the Minister is annexed to this report.

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