

Organization of accounting and legality of transactions within the area of administration of the Ministry of Agriculture in 2004

Audit report No. OSIV-2-6/05/109 of August 23, 2005

Summary

The goal of the audit was to evaluate the organization of accounting and the legality of transactions within the area of administration of the Ministry of Agriculture in 2004 and the work of internal auditors performed on 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 fair presentation of the Ministry's annual report and the legality of transactions.

The law allows the SAO, in 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 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.

In addition to the organization of accounting and the internal audit function in the Ministry, the correctness of accounting for revenues and fixed assets in the Veterinary and Food Board, the Agricultural Registers and Information Board and the Veterinary and Food Laboratory was evaluated on the audit.

Main observations

Opinion of the person responsible for internal audit on the annual report

The person responsible for internal audit in the Ministry of Agriculture is of the opinion that in the given scope – the Ministry of Agriculture as a single entity, disbursements made by the Agricultural Registers and Information Board (ARIB) from the EU SAPARD funds and the Guarantee Section of the EAGGF (altogether 25 percent of the foreign funds allocated through the ARIB and 51 percent of the revenues and 20 percent of the expenditures in the area of administration), the Veterinary and Food Board, the Agricultural Research Centre, the Bureau of Construction Supervision and Expert Assessments in Land Improvement and the land improvement bureaus – the annual financial statements present fairly, in all material respects, the financial position of the Ministry of Agriculture as of 31 December 2004, the results of its operations and its cash flows for the accounting period and he/she finds that the transactions are, in the main part, in conformity with legislation.

The person responsible for internal audit does not give specific evaluation of the management report of the Ministry in his/her opinion.

Minister's evaluation of the internal control system

The Minister of Agriculture finds the internal control system of the Ministry of Agriculture and its area of administration to be operational in the material part. The Minister confirms in the annual report that the internal audit areas were selected as a result of risk assessment and that the internal audit units in the subordinate agencies, in performance of their duties, follow the legal acts of the Republic of Estonia and are guided in their activities by the INTOSAI internal control standards and the IIA internal auditing standards, as well as the instructions prepared by the Ministry of Finance. The recommendations made as a result of audits have been implemented in most part.

SAO evaluation of the work of internal auditors and their opinion on the annual report

In auditing the 2004 annual financial report of the Ministry, the requirement to undertake audits on the basis of risk assessments and to make record of all performed procedures, as set forth in 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 internal auditing standards, was not met.

- The audit procedures to be performed for forming an opinion on the annual report of the area of administration of the Ministry were not designed on the basis of risk assessment. Risk assessments were not the basis for auditing the financial accounting and reporting in the Ministry as a single entity.
- Internal auditors have not prepared working papers for the recording of all performed procedures. According to the explanations made to the SAO, the papers were drawn up only for reporting of identified problems. Thus the scope of the audit conducted by the internal auditors cannot be determined by the audit documents. There is no evidence that audit procedures were performed on all transaction classes distinguished by size.
- Since the audits constituting the basis for the opinion of the person responsible for internal audit did not cover, to a sufficient extent, the balances (the balance sheets and statements of revenues and expenditures) of agencies taking up a substantial part of the balance sheet total or the transaction categories having importance due to the large amounts they represent, the SAO does not regard the scope and extent of performed audit procedures as appropriate, in order for the person responsible for internal audit to express an opinion on the annual financial report of the Ministry.

From the point of view of the SAO, in planning and monitoring the activities of the internal audit department, the Minister of Agriculture did not pay proper attention to the need for organizing the activities of the department for the purpose of collecting, with the concerted effort of internal and external auditors, as much information as possible about the organization of accounting within the area of administration and the quality of reports of the subordinate agencies, so as to enable the person responsible for internal audit to express an opinion, based on audit findings, on the annual report of the Ministry as a whole. Thus the evaluation of the Minister of the internal control system of the Ministry is not correct.

SAO evaluation of the organization of accounting in the Ministry

The Ministry had failed to establish in 2004 the internal accounting rules for the agencies within the area of administration. The rules were established only on 1 July 2005. Thus, the provision of the general accounting policies of the state to establish, in internal accounting rules, additional requirements for accounting and reporting on the subordinate agencies was not implemented in 2004.

The internal accounting rules for the area of administration of the Ministry or the drafts thereof in the audited units were in compliance with the Accounting Act and the general accounting policies of the state.

In the course of this audit the SAO has avoided from making an evaluation of the organization of accounting in the area of administration as a whole, resulting from the limited scope of the audit.

SAO evaluation of legality of transactions

No serious infringements of legal acts in the performance of financial transactions were observed during the audits carried out within the area of administration of the Ministry of Agriculture in the first half of 2005. The SAO has noted shortcomings in granting use of government property and the organization of public procurement.

SAO evaluation of the management report of the Ministry

The management report of the Ministry has been drawn up in accordance with the provisions of the general accounting policies of the state. The SAO did not evaluate the accuracy of information presented in the report about the attainment of intended results.

Major proposals to the Minister of Agriculture

- 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 internal auditing standards in such a way that in auditing the Ministry's annual report the following would be ensured:

- assessment of risks in the Ministry and its area of administration, preparation of audit programmes based on the risk assessment and performance of audits by focusing on important transaction classes;
 - timely and proper preparation of working papers for the documentation of the audit process;
 - evaluation of all components of the annual report of the Ministry, incl. the management report.
- Establish an effective and controllable system for monitoring the contracts (incl. leasing and rental contracts) relating to transactions made with the assets in the possession of the Ministry of Agriculture. To this end:
 - initiate procedures for reformulating the contracts made by the agencies within the administration area on granting use of state property on behalf of the Ministry;
 - seek alteration of effective contracts in such a way that they would not be more unfavourable to the government than contracts made by private owners on the use of property of similar value;
 - identify the reasons why unprofitable contracts on leasing government assets were made in 2004.
- Issue precise instructions for the acquisition of goods and services, in order to
 - exclude the imposition of unjustified long-term obligations on the government;
 - ensure that in the acquisition of goods and services the Public Procurement Act and the good public procurement practices are followed and that the goods and services are acquired on the most beneficial and cost-effective conditions.

The Minister of Agriculture concurred with the evaluations and recommendations made by the SAO in respect of the operation of the internal audit service. The Minister did not inform the SAO of the taken or proposed decisions in respect of other proposals. The Minister gave an explanation of letting lands to OÜ Hiiumaa Agro in the Käina municipality in Hiiu County (see point 2.3 of the full report). She did not agree with the SAO that the provider of travelling services be selected by way of competition. The full text of the Minister's reply is annexed to this report.

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