Accounting and legality of the transactions of the Ministry of Foreign Affairs in 2004

Audit report No. OSI-2-6/05/75 of 14 July 2005

Summary

The State Audit Office carried out an audit titled 'Accounting and legality of the transactions of the Ministry of Foreign Affairs in 2004.' The goal of the audit was to evaluate the work of the internal auditors upon auditing the annual report and the organisation of accounting in the Ministry of Foreign Affairs as well as the legality of the economic transactions performed in 2004. The classes of the audited transactions included those pertaining to the fixed assets and appropriations and the administration and personnel costs.

According to the amendments of the State Budget Act, a person responsible for the internal audit of the Ministry of Foreign Affairs must assess the ministry's annual report and the legality of transactions in 2004. The State Audit Office must assess the state's aggregate annual report and the legality of transactions in 2004. While auditing the state's annual report the State Audit Office may rely on the assessment of a person responsible for the internal audit of the state accounting entity with respect to the correctness of the annual report and the legality of the transactions of the state accounting entity.

Main observations

- Since the internal auditors have not audited the annual report 2004 of the Ministry of Foreign Affairs to a sufficient extent or assessed the correctness of the annual report or the legality of the transactions, the State Audit Office cannot rely on their work.

- Since the scope of the audit of the internal auditors was not sufficient for assessing the annual report of the Ministry of Foreign Affairs the State Audit Office carried out audit procedures with respect to essential balance sheet items and transaction classes. Without making a general assessment of the annual report the State Audit Office finds that the audited transaction classes in the annual accounts have been accounted correctly in the material respects.

- Peep Jahilo, the Director of the Internal Audit Department of the Ministry of Foreign Affairs, who has been in office as of August 2004, is also the Ambassador Extraordinary and Plenipotentiary in the Republic of Albania and resides in Estonia. Before becoming the Director of the Internal Audit Department he was the Ambassador in the Kingdom of Norway and in the Republic of Iceland. According to the State Audit Office there is a risk that upon auditing the foreign missions the independence and objectiveness of the internal auditor is not ensured if the Internal Audit Department audits the foreign missions where the Director of the Internal Audit Department is the ambassador or was the ambassador immediately before appointment to the position of the head of the Internal Audit Department.

- According to the State Audit Office the organisation of accounting in the audited areas of the Ministry of Foreign Affairs is good. The State Audit Office did not find any material non-conformity with the relevant legislation in the accounting policies and procedures.

- The State Audit Office found shortcomings in the accounting and internal audit system of the Ministry of Foreign Affairs in the following areas: accounting prepayments, registration of fixed assets, depreciation accounting and formalisation of contracts for services.

- As for the legality of the transactions the State Audit Office found that in one instance the Public Procurement Act has been disregarded. As for financial management there is room for improvement upon the use of budget funds for acquisition of office equipment and making prepayments.

Main suggestions to the Minister of Foreign Affairs

- Pay more attention to training the internal auditors and to plan more time for organisation of the audit of the annual report in order to ensure the fulfilment of the requirement of the state

budget by the internal auditors.

- Upon approval of the annual work schedule of the Internal Audit Department, make certain that any conflicts of interest are excluded.

- Modify the internal audit system in such a manner that the following are ensured:

    - timely arrival of the documents on the actual use of funds at the Accounting Department;
    - formalisation of contracts for services before performance of the work or before provision of the service.

- Upon budgeting the coming periods, to plan the acquisitions of the fixed assets as investments, not as operational expenditure. Upon accounting assets (either as the costs of the period or the fixed assets), it must be proceeded from the substance of the transaction.

- If possible, avoid making prepayments, but if it is necessary, register the prepayments at the moment of making the transfer, not at the moment of receiving the invoice for the prepayment. In the reply to the draft audit report the Minister of Foreign Affairs agreed with the observations of the State Audit Office and promised to take the suggestions of the State Audit Office into account.

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