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

Audit Report No OSI-2-6/05/8 of February 11, 2005

Executive summary

The objective of the audit carried out under the 2004 work programme of the State Audit Office (SAO) was the follow-up review, from 1 January 2003 to 31 August 2004, of major problems identified in the course of the audit of the 2002 annual report and the report on the state budget implementation by the Estonian Motor Vehicle Registration Centre (EMVRC), focusing on the collection of and accounting for the government levies and the organisation of public procurement.

Relevant observations

The Ministry of Economic Affairs and Communications has failed to sufficiently deal with the elimination of shortcomings detected in the previous audit, so that the full-scale inflow of government levies to the state budget could be ensured. Although the information systems are being installed and improved in the EMVRC, proper collection of government levies and performance of proceedings and their recording in the books have been mismanaged until now. In 2003, observance of the Public Procurement Act by the EMVRC has considerably improved compared with the earlier period.

Supervision of third parties collecting government levies is insufficient. By the time of the audit, contracts with the private limited companies Liivi Teenindus and Varantes had been discontinued, but in the EMVRC service bureaus government levies could be paid to OÜ E-Kindlustus, who is a legal person governed by private law with the share capital of EEK 40,000 and the asset value amounting to EEK 2.4 million. The SAO is of the opinion that collection of government levies by a private limited company is very risky, because the company may not able to compensate for the damage to the state in case of shortage.

The contracts concluded by the EMVRC with E-Kindlustus Online OÜ as well as with AS Eesti Post are very general in terms and in the opinion of the SAO do not adequately provide for the obligations or the liability, thus transfer to the state budget of all levies collected by these companies may not be ensured.

Major shortcomings included:

- It does not follow from the text of the contract that the payments referred to therein denote government levies;
- It has not been agreed by which date and to which bank account the government levies collected by the company are to be transferred;
- The contract does not provide for any sanctions in case the government levies are not transferred to the EMVRC;
- The nature and frequency of controls over the execution of the contract have not been agreed.
- The contract does not provide for the reports on the government levies collected by the company.

Although the contracts concluded with OÜ E-Kindlustus Online and AS Eesti Post stipulated the right of the EMVRC to monitor the accomplishment of required tasks and procedures, the EMVRC had never exercised the said authority in respect of government levies during the audited period. The same applies to AS Eesti Krediidipank. The SAO is of the opinion that control over the execution of contracts is necessary in order to be assured that all collected state revenues have been transferred to the state budget.

Verification of the receipt of government levies is inadequate. According to the Government levies Act, the EMVRC is obligated to verify and be confirmed that payment of the government levy has been made prior to rendering the services. In the service bureaus of the EMVRC, traffic register procedures are performed upon submission of the duplicate/print-out of payment order or of any other document confirming the payment of government levies, ie without making sure that the money has actually been

transferred to the bank account. This may bring along the risk that no money has actually been paid or that several procedures are carried out for a single levy. The actual receipt of government levies is verified only in exceptional cases when there is suspicion about the payment of a levy, and it is largely up to each customer service representative whether to indicate that receipt has been verified as there are no respective procedural rules.

The agency does not have an appropriate information system for ongoing verification of receipts. The customer service representatives in the EMVRC cannot verify the receipt of government levies in an ongoing manner, because they are not authorized to check the receipts and payments in the bank accounts of the EMVRC. The agency has failed to set up a unified information system which would consolidate, at certain intervals, all the transactions on different EMVRC settlement accounts with different banks and would be accessible by all persons concerned. The introduction of such a system would inter alia help prevent the effecting of procedures without the levies being actually paid.

The EMVRC has conducted several analyses and put on different meetings for the introduction of the information system, but the best possible solution has not yet been found. The Ministry of Economic Affairs and Communications has addressed the problem, but a final solution was not devised by the end of the audit.

Government levies are recorded in the books on cash basis. According to the reasons given to the auditors, accrual basis accounting is not possible because of the lack of the corresponding data base in the agency. The SAO finds that accrual basis accounting for state revenues becomes possible upon the installation of the afore-mentioned information system.

Major proposals

The Minister of Economic Affairs and Communications should ensure the implementation of the following proposals and submit to the SAO a plan of measures taken to this end.

- Resolve to terminate the contract with E-Kindlustus Online OÜ and start collecting the government levies.
- Make amendments to the contract made with AS Eesti Post so as to ensure the transfer to the state budget of all collected levies.
- Improve the internal control systems in order to ensure the payment of government levies for the procedures and their transfer to the state budget, whereas enable the EMVRC customer service representatives to verify on an ongoing basis the receipt of government levies by the EMVRC; require routine reporting and check the collection and transfer to the EMVRC bank account of government levies collected by the third parties (OÜ E-Kindlustus Online, AS Eesti Post, AS Eesti Krediidipank).
- Introduce an information system which would enable real-time consolidation in a single database of transactions carried out on the different bank accounts of the EMVRC and which would, if necessary, allow the insertion of a marking confirming the performance of a procedure.
- Start recording government levies on accrual basis.

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Responses from **the Minister of Economic Affairs and Communications and from the Director of the Estonian Motor Vehicle Registration Centre.**

The Minister of Economic Affairs and Communications, in his reply, has concurred with the findings and proposals of the SAO and furnished a plan of action.

The Estonian Motor Vehicle Registration Centre submitted their opinion and explanations on the observations and proposals made by the SAO. Irrespective of the explanations in the reply, the SAO will stick to its standpoints.

Ines Metsalu
Chief Auditor
Audit Department I