

Accounting and legality of the transactions of the Ministry of Finance in 2004

Audit report No. OSI-2-6/05/93 of 1 August 2005

Summary

The State Audit Office audited the accounting and the legality of the transactions in the area of government of the Ministry of Finance 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 Finance and the agencies falling in its area of government as well as the legality of the economic transactions performed in 2004.

The audited transaction classes included public revenues, financial assets and liabilities administered by the State Treasury Department, research, foreign aid given to the state and operational expenses. In the process the accounting of public revenues and operational expenses in the Tax and Customs Board was audited and a separate audit report was prepared on it.

This report also includes the main observations of the State Audit Office made during the audit titled 'Accounting and Legality of the Transactions of the Tax and Customs Board in 2004.' As a result of the audit the main observations regarding the work of the internal auditors, the organisation of accounting, the legality of the transactions, the internal audit system and the financial management have been pointed out.

According to the State Budget Act, a person responsible for the internal audit of the Ministry of Finance must assess the annual report and the legality of transactions of the Ministry of Finance 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.

Organisation of accounting

- Agencies in the area of government of the Ministry of Finance have valid accounting policies and procedures. According to the State Audit Office the accounting policies and procedures in the area of government of the Ministry of Finance are in compliance with the Accounting Act and the General Rules for State Accounting. However, there were shortcomings in the organisation of accounting as referred to by the observations made in this audit report.
- The State Audit Office found mistakes in the accounting in the area of government of the Ministry of Finance in the following areas: accounting tables and receivables as well as carrying out inventory checks and approving them.

Operativeness of the internal audit system

According to the State Audit Office, the internal audit system needs to be modified in respect of the transactions performed in the Money and Capital Markets Division of the State Treasury Department.

Legality of economic transactions and financial management

- As for the legality of the transactions the State Audit Office found shortcomings upon adherence to the Public Procurement Act.
- According to the State Audit Office, regulations 'Procedure for Writing off and Cancellation of Tax Arrears' and ' Procedure for Allocation of Income Tax of Natural Persons to Local Authorities' of the Minister of Finance need modification. The former must be modified in respect of declaring taxes receivable as irrecoverable and the latter must be modified in respect of registration of the place of residence of taxpayers.

Relying on the work of the internal auditor

As a result of the audit procedures carried out the State Audit Office finds that upon assessment of the aggregate annual report of the state it can rely on the work of the internal auditors and on the evaluation of the auditor concerning the annual report of the Ministry of Finance. The State Audit Office would like to note that the risk assessment of the internal auditors differed from that of the State Audit Office. The internal auditors concentrated on auditing the coverage of the assets and liabilities in the area of government, leaving, for instance, the audit procedures regarding the legality of the transactions in the background. According to the explanations received, the internal auditors had planned on assessing the legality of the transactions, but due to the lack of resources it could not be done. The internal auditors also did not audit the reserves or loan obligations, which were considered important by the State Audit Office in its risk assessment. Therefore, the State Audit Office conducted further audit procedures in more important areas based on its risk assessment.

The internal audit evaluation of the Ministry of Finance states the following:

- regarding the annual report it states that considering the scope of the audit and the impact of the observations made, the annual report 2004 of the area of government of the Ministry of Finance is in material respects in conformity with the Accounting Act and Regulation No. 105 of the Minister of Finance of 11 December 2003 'General Rules for State Accounting,' and
- regarding the legality of the transactions it states that no substantial non-conformity with the effective legislation was discovered in respect of the audited transactions.

The internal auditors made two comments on the annual report 2004 of the area of government of the Ministry of Finance: they did not make an assessment of the opening balances of 2004 or, due to the lack of sufficient evidence, of the value of taxes, fees and penalties receivable in the amount of 5 695 641 thousand kroons.

Opinion about the work of the internal auditors

According to the State Audit Office, the work of the internal auditors of the Ministry of Finance upon auditing the annual report of the Ministry of Finance is in compliance with the guidelines of the Financial Audit Handbook compiled by the Ministry of Finance. The State Audit Office would like to make one comment on the work of the internal auditors:

- The State Audit Office and the internal auditors of the Ministry of Finance disagreed on the breach of the Public Procurement Act. Unlike the internal auditors, the State Audit Office found that the Tax and Customs Board had reached the Public Procurement Act.

Follow-up audit of the observations of the previous audit

As a result of the follow-up audit the State Audit Office found that the suggestions made during the previous audit had been fulfilled in material respects.

Main suggestions to the Minister of Finance

- Indicate the allocation regarding the payment made to the budget of European Union for the excessive stocks in the balance sheet of the Ministry of Finance.
- Modify the internal audit system of the Ministry of Finance with respect to carrying out inventory checks and approval of the results thereof and with respect to the transactions performed in the Money and Capital Markets Division of the State Treasury Department.
- Modify Regulation No. 61 of the Minister of Finance of 2 May 2002 in such a manner that the Secretary-General of the Ministry of Finance must approve declaring taxes receivable as irrecoverable.
- Amend Regulation No. 10 of the Minister of Finance of 19 January 2004 in such a manner that the income tax of natural persons would accrue to the local authority of their place of residence within one month.

- Ensure modification of the internal audit system of the Tax and Customs Board with respect to adherence to the Public Procurement Act.
- Ensure modification of the accounting of the Tax and Customs Board so that the liabilities would be registered pursuant to the accrual method of accounting and the matching principle.
- Ensure modification of the internal audit system of the Tax and Customs Board with respect to indication of the results of inventory checks.

The opinions of the Minister of Finance in respect of the observations and suggestions have been set out in the report and the full text of the reply of the Minister of Finance has been annexed to the report.

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