Accounting and legality of the transactions of in the area of administration of the State Chancellery in 2004

Audit report No. OSI-2-6/05/79 of 18 July 2005

Summary

The State Audit Office audited the accounting and the legality of the transactions in the area of administration of the State Chancellery 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 State Chancellery and the agencies falling in its area of administration as well as the legality of the economic transactions performed in 2004. In addition to the evaluation of the work of the internal auditors and the general organisation of accounting the administration and personnel expenses of the two largest agencies in the area of administration of the State Chancellery (the State Chancellery and the National Archives) were audited.

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.

Since the State Gazette Publisher is an agency administered by the State Chancellery this report specifies the main observations of the State Audit Office made in audit 'Economic Activities of the State Gazette Publisher in 2004.'

According to the State Budget Act, a person responsible for the internal audit of the State Chancellery must assess the State Chancellery'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.

Organisation of accounting

- According to the State Audit Office the organisation of accounting in the audited areas of the State Chancellery is good. The Secretary of State has approved the accounting policies and procedures for the area of administration. In addition, each agency of the area of administration has established its own accounting policies and procedures based on the specific nature of the agency and the general accounting policies and procedures for the area of administration of the State Chancellery. According to the State Audit Office, the accounting policies and procedures for the area of administration of the State Chancellery are in conformity with the Accounting Act and the General Rules for State Accounting, except the accounting policies and procedures of the State Gazette Publisher, where the principles of accounting the cost price of printing have not been sufficiently described.
- The State Audit Office found mistakes in the accounting of the area of administration of the State Chancellery in respect of registration of assets and liabilities and accounting mission expenses.

Legality of economic transactions (personnel and administration costs) and financial management

As for the legality of the transactions the State Audit Office found that in one instance the Public Procurement Act had been disregarded.

In terms of financial management there were problems with the planning of appropriations in the budget and with the accounting of appropriations in the budget implementation report.

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 auditor and on the evaluation of the auditor concerning the annual report of the State Chancellery, except in respect of the

management report, which has not been audited by the internal auditors and which was thus audited by the State Audit Office. The internal audit evaluation of the State Chancellery states the following:

- regarding the annual report it states that considering the scope of the audit, the annual report 2004 of the State Chancellery as an accounting entity 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 considering the scope of the audit, the economic transactions of the State Chancellery in 2004 are in material respects in conformity with legislation.

The State Audit Office audited the management report and found that the management report has been prepared pursuant to the requirements of the State Budget Act and the Accounting Act and the numerical information given in the management report on the basis of the annual accounts has been presented correctly.

Opinion about the work of the internal auditors

According to the State Audit Office, the work of the internal auditors of the State Chancellery upon auditing the annual report of the State Chancellery is in compliance with the guidelines of the Financial Audit Handbook compiled by the Ministry of Finance. Two observations have been made about the work of the internal auditors.

- Contrary to what is required by the State Budget Act, the internal auditor has evaluated the correctness of the annual accounts, not the annual report.
- The State Audit Office and the internal auditors of the State Chancellery remained true to different opinions regarding accounting lease transactions and a breach of the Public Procurement Act in the respect where the State Audit Office found, unlike the internal auditors, that the contracts made are financial lease contracts and that public procurement should have been organised for purchasing the travel service.

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 State Chancellery is attending to the fulfilment of the suggestions made by the State Audit Office last year and the suggestions have partially been fulfilled.

Main suggestions to the Secretary of State

- Ensure that the accounting policies and procedures or the procedure established on the basis thereof give an exhaustive overview of the formation of the price of the State Gazette and the cost price of other printing services.
- Indicate the lease contracts in the accounts as financial lease payables. In the future, avoid assuming long-term irreversible obligations, which are prohibited by the State Budget Act.
- Upon acquisition of assets, act pursuant to the actual substance of the transaction, not the fixed asset accounting criteria and plan major asset acquisitions in the budget as investments.

In a reply to the draft audit report the Director-General of the State Chancellery agreed with the State Audit Office's observations (except with respect to the purchase of the travel service). The State Audit Office and the State Chancellery disagreed on the organisation of public procurement of the travel services.

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