# Economic activities of the Eesti Draamateater Foundation

**Audit Report No 2-6/05/4 of January 24, 2005**

## Executive summary

The purpose of the audit was to form a judgement on the economic activities of the Eesti Draamateater Foundation (Estonian Drama Theatre) from the time of its establishment till 31 August 2004, focusing on the relation between economic transactions and the main operational goals of the Foundation, as well as to make relevant observations about the legitimacy of transactions, the financial management and the proper functioning of internal control structures. The audit also covered the liquidation proceedings of Eesti Draamateater as a public institution.

In 2004, EEK 15.8 million were allocated from the state budget to the Foundation to support operations and EEK 4.5 million for investments. In the first half-year, the Foundation earned EEK 6.2 million as income from economic activities.

**In the course of the audit, the following relevant observations were made:**

- The Ministry of Culture set up a committee for the liquidation of the theatre that had until then been administered as a state-owned institution, but failed to adequately monitor the functioning of the committee. Since the liquidation committee did not assume its functions in proper time, no inventory was taken or the closing balance sheet of liquidation approved.
- The liquidation committee did not approve the majority of asset transactions in the liquidation process, although this is laid down by the respective procedure approved by the Government.

  The liquidation committee has not arranged the transfer of state property at the disposal of the state-owned institution to the Ministry of Culture in accordance with the State Assets Act, pursuant to which the delivery and acceptance of state assets take place under instrument in writing.

  Due to the inefficient functioning of the liquidation committee it has become possible that the assets of the liquidated company were not transferred to the Foundation as a non-monetary contribution but directly from a state-owned institution to a foundation, which is in breach of effective legislation, and thus the government-contributed foundation capital is smaller than the assets actually transferred to the Foundation.

  Delivery and acceptance of document management pertaining to the liquidation of a state-owned theatre did not conform to the relevant procedure.

- The decisions of the Foundation's Council were sometimes not substantiated and documented as required and the Council did not adequately monitor the implementation of its decisions. Further, the Council did not meet all the obligations under the Statutes – some of the procedures governing work practices as laid down in the Statutes had not received final approval.
- There is no procedure in place for budget development that would describe the budgeting process and give detailed instructions. In preparing budgets for new productions some cost items have been neglected. Accounting does not support the preparation of individual budgets of cost units.
- In granting operating subsidy to the Foundation, the Performing Arts Institutions Act has not been respected.
- The accounting records of the Foundation do not furnish complete and objective information about all revenues and due to shortcomings, the internal controls cannot ensure it either.
- In accounting for operating costs, the provisions of the Accounting Act, the generally accepted accounting principles and the internal accounting rules of the theatre have not been followed. In some cases the payment of bonuses was not sufficiently substantiated, and accounting for vacation leave cost did not conform to the established procedure.
- Accounting for fixed and current assets in a comprehensive and proper manner was not ensured: part of fixed assets had not been recorded in the books, fixed assets contained items that were actually non-existent, the movement of cash had not been properly recorded in several cases, stock checks were not performed according to the established rules.

- There is no regulation governing the operation of Piletipunkt (Ticket Centre), a structural unit of the Foundation. The process of transactions at Piletipunkt is difficult to monitor and does not ensure that the invoices and reports forwarded to the Foundation by resellers involved in the sales process include all ticket revenues. On many occasions the transactions in the Kaubamaja sales office of Piletipunkt were effected in cash.

Due to the deficient system of internal controls it was possible for the Foundation to make cash payments to the producers of concerts and performances before receiving ticket revenues, there were also cases where more money was paid than earned from the sale of tickets and in the sales offices of Piletipunkt shortages occurred that were sought to be concealed with printed-out tickets.

**Major proposals**

**To the Minister of Culture**

- Give an evaluation to and develop an opinion of the functioning of the liquidation committee and resolve the issue of liability of the members of the liquidation committee.
- In the light of the resolved and intended liquidation of several institutions administered by the Ministry and the establishment of foundations on the basis of their assets, to improve the internal control systems of the Ministry and implement control measures in such a way as to ensure:
    - Competent supervision over the liquidation of administered institutions
    - Appointment of competent members to the liquidation committee
    - Monitoring of compliance with regulatory instruments
    - Complete and accurate documentation.
- Improve the internal control structure of the Ministry so as to ensure the determination and allocation of the amount of operating subsidy from the state budget in accordance with the requirements laid down in the Performing Arts Institutions Act on, ie with a view to the difference between actual costs of production and estimated ticket revenues.
- Require that the Council of the Foundation design a remedial action plan to rectify the shortcomings highlighted in the audit report and to notify the Ministry of the measures taken.
- Reconcile the Statutes of the Foundation with the Performing Arts Institutions Act, including regulation of the set-up of a repertoire committee and its activities.

**To the Council of the Foundation**

- Ensure the development and approval of the procedure for the use and management of assets.
- Lay down the principles for the payment of performance pay to the staff of the Foundation.
- Improve the internal control structure so as to ensure that record is kept of relevant decisions and of information underlying their adoption and that implementation of the adopted decisions is monitored.
- Develop an opinion of the grounds for the payment of bonuses and resolve the issue of their reclaim.
- Resolve the issue of liability of the Board Members with a view to the shortcomings in the management of the Foundation’s economic activities as identified in the course of the audit.
- Require the Board to:
    - Develop and enforce the procedure for budget development in order to ensure the preparation of the budgets of all cost units and monitoring of their implementation;
    - Improve accounting in terms of analytical accounts for all cost units, so as to provide information about the real cost of all productions;
    - Improve the internal controls so as to ensure the fair recording of revenues in the books and retrieval of comparable information;
    - Ensure that accounting is consistent with the Accounting Act, the generally accepted accounting principles and the requirements of the general accounting rules of the government;
    - Improve the internal controls so as to ensure the preservation of assets, including objective overview of existent fixed assets, their comprehensive and timely entry in the books and stock checks, as well as the comprehensive documentation of financial resources, proper accounting and the routine and extraordinary check of their existence;

- Work out and implement the procedure for the operation of Piletipunkt, which would incorporate duties, rights and responsibilities, as well as the procedures designed for accounting, reporting and supervision.
- Prohibit cash disbursements in the sales offices of Piletipunkt.

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In his response, **the Minister of Culture** regretted that deficiencies have occurred in the liquidation process of the state-owned institution Eesti Draamateater. The Minister explained it by the inexperience of the Ministry officials in the liquidation of a state institution and promised to ensure more effective supervision in the future over the conduct of liquidation proceedings of a state institution. The Minister also stated that amendments to the Statutes of the Eesti Draamateater Foundation are under preparation to include, inter alia, requisite provisions for the set-up of a repertoire committee and the rules of procedure.

The Minister of Culture is of the opinion that accounting for the salary expenses and theatre maintenance costs cannot be performed by productions and in cases where the theatre's own troupe is involved, regular wages are not included in the production costs. The Minister finds that allocation of operating support from the state budget has been consistent with the Performing Arts Institutions Act.

**The SAO** takes note of the opinion of the Minister of Culture on the allocation of operating support from the state budget, but sticks to its own opinion expressed in this report.

**The President of the Council of the Eesti Draamateater Foundation** concurred with the findings and proposals of the SAO and submitted a remedial action plan. The President of the Council conceded that several highlighted deficiencies are due to inadequate internal control structure and promised to appoint a new internal auditor in order to improve the situation. The President deemed necessary to stress that the audit outcome is of remarkable assistance and support for improvements in the work practices of the Foundation.

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