Economic activities of Estonian Maritime Academy in 2004

Audit Report No. OSIII-2-6/05/50 of June 3, 2005

Executive Summary

The objective of the audit was to evaluate the economic activity of Estonian Maritime Academy in 2004, focussing on the organisation of accounting, legality of the economic transactions, functioning of financial management and internal audit system.

Estonian Maritime Academy's budget for the year 2004 was 46.4 million kroons.

Relevant findings of the audit

Several shortcomings reflected in this audit report arise from the omissions of the Ministry of Education and Research. The Ministry has not established accounting policies and procedures that would be in accordance with the general rules of state accountancy, which sets additional requirements to the entities of the Ministry which form a part of it for accounting purposes. Respective rules relating to cash resources have not been established for Estonian Maritime Academy, where among other things the maximum limit for cash and security requirements for encashment, maintaining records and inventory should be established. The land belonging to the buildings located in Pärnu has not been entered into the State Assets Register. As of the autumn of 2003, there is no legal basis for providing the teaching staff with free uniforms and providing the cadets with free alimentation and free uniforms. At the same time, they still apply for funds the state budget, and money is allocated for the Academy.

Estonian Maritime Academy's organisation of accountancy does not ensure providing actual, relevant, objective and comparable information about the accounting entity's financial status, results of economic activity and cash flows, which is in contravention of Accounting Act and general rules of state accountancy. To record economic activities to the accounting journals, cash based accounting principle is often used instead of the required accrual method. Thus, some of the revenue remains unrecorded in the proper accounting period and the information about the agency's revenue given in financial statements may not be accurate. The program used in accounting is not set in a way that it would ensure the opportunity to compare and audit all recorded economic activities. Also, it is not possible to get a chronological overview of the recorded economic activities. This creates an opportunity for intentional or unintentional misrepresentation of accounting information.

In organisation of accounting of operational expenditure, in several cases the requirements established by Accounting Act, general rules, good practice of accounting or by Estonian Maritime Academy's own accounting policies and procedures have not been followed. In some cases, additional remuneration was not adequately reasoned, accounting of holiday pay was not in accordance with the established procedure.

Inclusive and required accounting of neither fixed nor current assets was not ensured: some of the fixed assets were not registered, the list of fixed assets contained assets that did not actually exist or was unsuitable for use; in many cases, cash movements were not properly recorded, inventories were not carried out in accordance with the established rules.

In the case of transactions with fixed assets every option for generating income was not implemented.

The major decisions of the Maritime Academy have been previously discussed in its supervisory board and adopted after their approval by the board. For most of the processes, internal regulations have been drawn up, which have not been brought into conformity with the amendments made into legislation, and in many cases these are ignored. The internal audit system does not ensure compliance either.

Many weaknesses identified in the course of the audit were eliminated already during the audit.

Major proposals

To the Minister of Education and Research

- Ensure the development and implementation of common accounting policies and procedures and Estonian Maritime Academy's rules for cash resources for agencies in the Ministry of Education and Research's area of government.
- Form an opinion on providing the Maritime Academy teaching staff with free uniforms and its cadets with free alimentation, and on covering uniform-related expenditure from the state budget and if necessary, make respective additions to the legislation.
- Ensure that the land units in the possession of Estonian Maritime Academy, situated in Suur-Jõe 18 and Kuninga 30, Pärnu, shall be entered into the State Assets Register.
- When drawing up the draft budget of the area of government, ensure the verification of the validity of the reasons for the expenses of all the agencies of the area of government and expenses' compliance with legal requirements.

To the Rector of Maritime Academy

- Supplement the internal audit systems in a way that the compliance with the applicable legislation of the accounts, wage calculation, holiday pay calculation, rules relating to assets and tangible assets, business trip and other rules and the compliance with their requirements would be ensured.
- Consider the chief accountant's suitability for the post.
- Review all current commercial lease contracts, analyse them and evaluate their cost-effectiveness and submit proposals to amend the contract conditions. Received rent should be transferred to the revenues of the state budget.
- Organise additional inventories, taking into consideration the weaknesses identified in the accounting of assets in the course of the audit.

***

In her response, the Minister of Education and Research declared that the Ministry has examined the draft audit report and concurred with most of the assessments and opinions. In her response, the minister also provided measures for eliminating the weaknesses listed in the draft.

The acting rector of Estonian Maritime Academy declared in his response that he does not concur with some of the assessments, but did not object to the observations given in the draft audit report. In his response, he explained the reasons for the weaknesses identified in the course of the audit, and provided measures for their elimination and prevention in the future.

Jüri Kõrge
Chief Auditor
Audit Department III