

Economic activities of the Estonian Academy of Arts in 2004

Audit report No. OSIII-2-6/05/92 of 29 July 2005

Summary

The goal of the audit was to assess the economic activities of the Estonian Academy of Arts in 2004, focusing on the connection of the economic transactions with the main goals of the activities and on documentation of the economic activities and bringing out main observations regarding the legality of the transactions, financial management and operation of the internal audit system.

The audit covered all structural units of the Estonian Academy of Arts as well as the G9 Foundation and private limited company Moe Mix founded by the Estonian Academy of Arts.

Main observations

The Academy has entered into contracts with the G9 Foundation for management of the Academy's buildings. The contracts were outdated and did not take the requirements of the legislation regulating the activities of the Academy or the Law of Obligations Act into account. In several instances the G9 Foundation had failed to perform the obligations placed upon it in the contracts for management of the buildings and the lease contracts. The Academy performed these obligations itself, but the contracts had not been amended and the management fee paid to the foundation had not been reduced. By breaching the management contracts the foundation has disregarded the obligation to support the Academy upon achievement of its goals and objectives.

The Academy had not analysed the profitability of the management of the buildings by the foundation in comparison with the management of its buildings itself while ordering maintenance services from various service providers where necessary.

According to the Universities Act, a university may grant the use of its assets to another person for a specified term provided that the council of the university agrees that such assets are necessary to attain the mission of the university but it is impossible or impractical to use such assets at the time. Some lease contracts of the buildings belonging to the Academy have been made for a very long time and it cannot be claimed that these assets are necessary to attain the mission of the Academy but it is impossible or impractical to use these assets at the time for fulfilment of the Academy's needs. No auctions had been organised for finding lessees and the lease contracts made contained terms and conditions, which were harmful for the lessor.

According to the Universities Act, real property belonging to a university may be transferred with the permission of the Government of the Republic. The Academy has disregarded this provision upon establishing a building lease on a part of the registered immovable located at Tartu mnt 1 and upon initiation of the sale of a field training base in Türisalu. In breach of the State Assets Act, the Academy has sold its fixed assets without organising any auctions. Disregarding the requirements arising from law, the establishment of the building lease and the sale thereof have been performed on the basis of a decision and without an auction and thus, the Academy has not received the maximum possible income from the transaction. According to an expert assessment ordered by the State Audit Office during the audit, the income received by the Academy from the establishment of the building lease was 4.3 million kroons below the possible market price.

Upon purchasing goods and services the Academy did not organise a public procurement in any event through 2003-2004, violating the Public Procurement Act.

By the time of the audit, 1.2 million kroons of the 10 million kroons allocated from the state budget for the purpose of preparation of the new study building had been spent. According to the State Audit Office, the costs incurred out of the funds allocated for preparation of the new study building were not in compliance with the intended purpose of the funds.

In many instances the Academy had not claimed tuition. For example, tuition was not claimed from students who had taken an academic leave or who had been excluded from the Academy or transferred to a state-funded student place. In several instances tuition receivables had been written-off based on the explanation that the collection has become inexpedient.

The internal audit system established in the Academy does not function properly to ensure true and

reliable accounting and preservation of the tangible assets. Due to the inoperativeness of the internal audit system the following has become possible:

- there were shortcomings upon documentation of cash transactions, the cash obtained from sales transactions reached the cash register of the Academy with great delay;
- reports on amounts allocated in advance for the purpose of covering the administration costs were not prepared by the prescribed dates and the outstanding balances of unused funds have not been reclaimed. By allocation of the advance amounts the employees have virtually received a loan, which is not permitted under the Universities Act;
- payments which were not in compliance with law or the activities of the Academy and which bring about additional expenses in the form of taxes payable under the Income Tax Act were made.

The accounting policies and procedures did not regulate the accounting of inventory, registration of purchased books and publications in the library, payment of compensation upon using a personal vehicle for business travel, assessment of receivables as uncollectible or declaration of receivables as irrecoverable, etc., and thus, they need to be modified.

During the audit the Academy prepared various procedures which had not existed before and many mistakes in accounting were corrected.

Main suggestions

To the Minister of Education and Research

- Take a position regarding the transfer of the Academy to the Patarei Sea Fortress. If it is not expedient to move forward with the project, decide on reclaiming the funds, which have been allocated for the specific purpose, but which have not been used yet or change the intended purpose of the funds.
- Take a position regarding the use of the funds allocated for the purpose of preparation of the new study building of the Academy, taking into account the contents of this audit report and decide on reclaiming the allocation into the state budget.

To the Rector of the Academy

- Claim payment of the outstanding tuition even if a student has been excluded from the university or transferred to a state-funded student place or taken academic leave. Demand that the tuition be paid by the due date and charge the default interest set out in the contract from those who have failed to pay their tuition by the due date.
- Improve the internal audit system and ensure its operativeness and modify the accounting policies and procedures in order to ensure the true and reliable accounting and preservation of the tangible assets.

The Minister of Social Affairs acting in the capacity of the **Minister of Education and Research** stated in his reply that according to the position taken by the Minister of Education and Research it is unrealistic to renovate the former Patarei Sea Fortress mainly out of the state budget in the near future and according to the Ministry the costs of management of the renovated building would be too high for the Estonian Academy of Arts. The Minister also noted that the Ministry will continue to cooperate with other relevant agencies on the issue of development of the Academy's real property, but the options considered do not include the former Patarei Sea Fortress. The Ministry finds that the money spent so far in respect of the former Patarei Sea Fortress must be deemed as spent pursuant to the intended purpose, but at the same time the Ministry supports the State Audit Office in all aspects where the latter has pointed out that the investments have not been used according to their intended purpose and/or where their use has not been transparent enough.

In a reply the **Rector of the Estonian Academy of Arts** commented on the draft audit report, gave an overview of the measures which had been taken for eliminating the shortcomings and presented a further action plan. The Supervisory Board of the Academy decided to initiate liquidation proceedings of the G9 Foundation and terminate the contracts that are harmful for the Academy, establish rules of

procedure for organisation of public procurement and modify the accounting policies and procedures as necessary.

The **State Audit Office** recognises the steps taken by Signe Kivi, the Rector of the Academy, and the Supervisory Board of the Academy for eliminating the shortcomings identified during the audit. However, the State Audit Office does not understand the basis on which the Minister proposes to deem the funds spent in connection with the former Patarei Sea Fortress as spent pursuant to the intended purpose if the Minister also agrees with the State Audit Office in all aspects where it points out that the respective investments have not been used according to their intended purpose.

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