

Accounting and legality of the transactions in the area of government of the Ministry of Education and Research in 2004

Audit report No. OSIII-2-6/05/95 of 8 August 2005

Summary

The State Audit Office audited the accounting and legality of the transactions in the area of government of the Ministry of Education and Research in 2004. The goal of the audit was to make certain, by inspecting the work of internal and external auditors, that on the basis of the work performed by them for the purpose of assessment of the annual report and through conducting additional audit procedures we can assess the accounting and legality of the transactions of the accounting entities in the area of government of the Ministry of Education and Research. The audited transaction classes included the accounting of fixed assets, the revenue arising from the economic activities, the organisation of public procurement and the general organisation of the accounting.

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

Main observations

Organisation of accounting and internal audit system

- The organisation of accounting in the area of government of the Ministry of Education and Research is inconsistent in different agencies – there are agencies where the organisation of accounting is in line with the accounting principles generally accepted in Estonia and there are agencies where the organisation of accounting does not ensure obtaining the actual, essential, objective and comparable information about the financial condition, the results of the economic activities or the cash flow of the accounting entity.
- According to the State Audit Office the Ministry of Education and Research has not sufficiently coordinated accounting in its area of government. The accounting policies and procedures, which would comply with the General Rules for State Accounting, have not been drafted or approved. Therefore, the division of liability between the Ministry of Education and Research and its entities, which keep independent accounts, has not been determined.
- Due to the absence of the accounting policies and procedures of the Ministry the agencies in the area of government have not established any accounting policies and procedures based on the specifics nature of the agency. The Ministry has also not established any rules for cash in hand prescribed by the General Rules for State Accounting with respect to the accounting entities which have a cash register.
- The State Audit Office found mistakes in the accounting in the area of government of the Ministry of Education and Research in the following areas: accounting receivables and payables, inventory checks of assets, accounting income arising from the economic activities.
- The internal audit system of the agencies in the area of government of the Ministry of Education and Research can be deemed weak and thus, the protection of the assets, the adherence to the management principles, the accurate and complete submission of accounts and timely submission of reliable financial and management information are not ensured.

Legality of economic transactions and financial management

As for the legality of the transactions the State Audit Office found shortcomings upon adherence to the State Budget Act and the Public Procurement Act. As for financial management the State Audit Office found shortcomings upon management of the state assets and upon using funds allocated to the so-

called 'student home' projects.

Relying on the work of the internal auditors

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 and external auditors and on the evaluation of the person liable for the internal audit regarding the consolidated annual report of the Ministry of Education and Research, 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 person liable for the internal audit of the Ministry of Education and Research states in the evaluation regarding the annual report that, considering the scope of the audit, the auditor cannot and will not assess the Ministry's consolidated annual accounts of 2004. No significant non-conformity was noticed with respect to the legality of the economic transactions.

As required by the State Budget Act, the internal auditor has evaluated the correctness of the annual accounts, not the annual report. The person liable for the internal audit could not, according to the requirements of the international internal audit standards, evaluate the management report of the annual report 2004 of the Ministry of Education and Research, because, pursuant to the guidelines of the Financial Control Department of the Ministry of Finance, the auditor has participated in compiling it.

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 in material respects.

Main suggestions to the Minister of Education and Research

- Establish accounting policies and procedures for the agencies in the area of government of the Ministry of Education and Research, which would comply with the General Rules for State Accounting.
- Establish a procedure for cash in hand for the agencies in the area of government of the Ministry of Education and Research which have a cash register, stipulating the maximum limit of cash in hand and the rules for transportation, documentation, inventory-taking and security of the cash in hand.
- Modify the internal audit system in such a manner that the following would be ensured:
 - indication of economic transactions in accounting registers pursuant to the accrual method of accounting and on the accounts prescribed by the General Rules for State Accounting;
 - carrying out inventory checks pursuant to the established inventory check guidelines;
 - making timely entries in the register of state assets.
- Decide as soon as possible whether AS Imanta Hariduskeskus is really necessary for the state.
- Modify the internal audit system in such a manner that the adherence to the Public Procurement Act would be ensured. For example, decide on the need for organisation of the public procurement during the budgeting phase.

In a reply the Ministry of Culture acting in the capacity of the **Minister of Education and Research** agreed with the conclusions and suggestions made by the State Audit Office in the draft audit report and gave an overview of the actions which have been taken and will be taken to eliminate the shortcomings. To improve the level of accounting and strengthen the internal audit system the Minister promised that the accounting policies and procedures of the area of government of the Ministry would be drafted by October 2005 and it would also contain rules for cash in hand and guidelines for carrying out inventory checks of assets. The Ministry is also planning measures for ensuring carrying out inventory checks pursuant to the approved guidelines. In order to improve the professional skills of the accountants of the Ministry information days will be organised, focusing, among other things, on the shortcomings and weaknesses pointed out in the audit reports.

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