

Organization of accounting and legality of transactions within the area of administration of the Ministry of Culture in 2004

Audit report No. OSIII-2-6/05/107 of August 15, 2005

Summary

The State Audit Office (SAO) has audited the organization of accounting and the legality of transactions in the area of administration of the Ministry of Culture in 2004. The goal of the audit was to obtain reasonable assurance, by testing the work of internal and external auditors, that on the basis of the work performed by the auditors for forming an audit opinion on the annual report and the additional audit procedures conducted, the SAO may evaluate the organization of financial accounting and the legality of transactions of the accounting entities operating in the area of administration of the Ministry of Culture.

Pursuant to the amendment to the State Budget Act, the person responsible for internal audit in a governmental reporting entity is obligated, since 2004, to undertake an audit of the annual report and render an opinion on the fairness of the annual report and the legality of transactions of the given reporting entity. The SAO may, during the course of auditing the Government's annual report, rely on the audit opinion of the person responsible for internal audit in a government financial reporting entity in respect of the accuracy of the annual financial report and the legality of transactions of the reporting entity.

In addition to the audit procedures conducted by internal and external auditors, the SAO also performed audit procedures over the recognition in the Ministry's accounts of government-imposed fees collected for the issue of broadcasting licenses and of fees charged for awarding television broadcasting licenses. Further, the system of grants and appropriations allocated by the Ministry, as well as the principles for reporting for the grants and appropriations (allocations to culture) were examined.

Main observations

Organization of accounting and the internal control system

- Accounting practices within the area of administration of the Ministry of Culture are varied: there are agencies where organization of financial accounting is in conformity with the generally accepted accounting principles and there are others where accounting does not provide timely, relevant, unbiased and comparable information about the financial position, results of operations and cash flows of the accounting entity.
- The Ministry of Culture has failed to sufficiently coordinate financial accounting within its area of administration. Internal accounting rules for the area of administration consistent with the general accounting policies of the state have not yet been designed or approved. Hence, the division of responsibility among the Ministry and its subordinate agencies with self-balancing sets of accounts has not been determined.
- The Ministry has not established cash handling procedures consistent with the governmental accounting policies for subordinate agencies with cash on hand, which should inter alia set the upper limit for cash on hand, as well as requirements for collecting, counting and safeguarding cash and documenting cash receipts.
- The Ministry's book-keeping lacks the system for accounting for government fees and the accounting does not meet the requirements of the general accounting policies of the state. This may lead to improper accounting for revenues and there is no confidence that the government fees payable for issued broadcasting licences have actually been received. There is no analytical accounting for how many procedures subject to government fee were uncompleted at year-end and if fees had been paid for those uncompleted procedures.
- There are deficiencies in the ministerial accounts in respect of accounting for revenues earned from broadcasting licence fees, which are recognized on the cash basis and are thus in contravention of the requirements of the general accounting policies of the state. This may lead to improper accounting for revenues and there is no confidence that the payment of annual licence fees payable in instalments has in fact been received and that the payment deadlines have been met.

Legality of economic transactions and financial management

- The "2004 State Budget Act" does not provide, under revenues expected from the Ministry of Culture and the agencies within its area of administration, for income earned from government fees for the issue of broadcasting licences (EEK 100,000 in 2004), annual fees payable for broadcasting licenses (EEK 30 million in 2004), government fees for the issue by the National Heritage Board of operating licenses in the field of heritage protection (EEK 1 million in 2004).
- The Ministry of Culture must manage the stock of the limited liability company AS Sakala Keskus. The principal activity of this company is supervision of building lease agreements currently in effect.
- Upon entry into contracts for allocating grants and appropriations, the Ministry failed to observe all the government requirements for the purposeful use of state funds. Part of recipients had not presented proper reports on the use of assistance and in many cases the results of analysing the reports had not been properly documented. There were no specific criteria in place, accessible also to applicants, for granting assistance to private theatres.

Opinion of the person responsible for internal audit in the Ministry of Culture on the fairness of the annual report and legality of transactions

The person responsible for internal audit rendered an opinion on only the annual financial statements contained in the annual report for the fiscal year ended 31 December 2004; the internal auditor did not audit the management report.

According to the opinion of the person responsible for internal audit in the Ministry of Culture, the Ministry's financial statements for the year 2004 are not in compliance with Regulation No.105 of the Minister of Finance of 11 December 2003 titled "General Accounting Policies of the State".

The audit procedures of the Ministry's internal audit department are unreliable, because not all of the annual report is covered by risk assessments (i.e. risks have not been assessed in respect of all entries).

Implementation of proposals made by the SAO in 2004

The SAO pointed out already in the audit of the 2003 annual financial report of the Ministry of Culture that neither the Ministry nor the theatres had disclosed in the accounts an interest in OÜ Eesti Näitemänguagentuur (private limited company Estonian Drama Agency) (the shareholders of this company were 8 theatres operating within the area of administration of the Ministry). It was only in May 2005 that the Government of the Republic designated the Ministry of Culture as manager of the stake held by the government in the company.

Proposals to the Minister of Culture

- Establish internal accounting rules for the agencies within the area of administration of the Ministry of Culture in accordance with the general accounting policies of the state.
- Establish cash handling procedures for the agencies within the area of administration of the Ministry of Culture who handle and have cash on hand, which should set the upper limit for cash on hand, as well as requirements for collecting, counting and safeguarding cash and documenting cash receipts.
- Improve the internal control structures so as to ensure that financial events are recorded on the accrual basis of accounting in the accounting ledgers and journals and in the accounts specified in the governmental accounting policies.
- Improve the internal control systems so as to ensure that physical inventory is taken within the area of administration in order to secure the preservation of government property and the presentation of correct information in the annual financial statements.
- Seek approval from the Minister of Finance for an amendment to the general accounting policies of the state, which would make special provision for the frequency of performing physical inventory of museum items and information carrying items.
- Initiate amendments to the Broadcasting Act in order to make special provision for penalties for the failure to pay the annual fees for broadcasting licences payable in instalments as and when they fall due.
- Introduce an information system (analytical accounting) which would register the procedures subject to government fee as well as the actual receipts of such fees classified by customer and by date, as well as the annual fee for broadcasting licences payable in instalments.
- Ensure that the state budget revenues include all revenues earned within the area of administration of the Ministry.

- Terminate the operation of AS Sakala Keskus, with a view to considering that the Ministry itself might collect charges received for building leases and perform supervision of building lessees.
- Ensure that the contracts made with the recipients of state grants and appropriations comply with all government regulations and requirements.
- Apply internal control measures in order to ensure administration of grants and appropriations in accordance with established procedures, incl. the receipt and analysis of proper reports.
- Follow the provisions of the Performing Arts Institutions Act in the allocation of grants and appropriations to theatres.

In his response, the **Minister of Culture** explained accounting for museum items, provision of assistance to private theatres, to schools housed in manor buildings, to non-profit companies and also the awarding of film grants. The internal accounting rules applicable to the area of administration are sought to be approved in October 2005, the accrual-basis of accounting for government fees has been adopted and control over the receipt of broadcasting licence fees will be strengthened. The Minister supports the liquidation of AS Sakala Keskus, but only after the completion of the cultural centre foreseen in the building lease agreement.

In the light of the information brought forward in the reply of the Minister of Culture, certain changes have been made to the audit report.

Jüri Kõrge
Chief Auditor
Audit Department III