

Organisation of accounting and legality of transactions in the area of government of the Ministry of Justice in 2004

Audit report No. OSII-2-6/05/101 of August 11 2005

Summary

The SAO audited the organisation of accounting and legality of transactions in the area of government of the Ministry of Justice in 2004. The objective of the audit was to evaluate the work of internal auditors in auditing the annual report, and the organisation of accounting in the Ministry of Justice and the agencies in its area of government, as well as the legality of economic transactions carried out in 2004.

As a result of the audit, main observations about the work of internal auditors, organisation of accounting, legality of transactions, internal audit system and financial management have been pointed out. In this report, the main observations of the SAO audit "Organisation of accounting and economic activities of Tartu Prison in 2004" is also reflected.

Arising from State Budget Act, the person responsible for the internal audit of the Ministry of Justice has to evaluate the annual report and legality of transactions of the area of government of the Ministry of Justice in 2004. The SAO has to evaluate the consolidated annual report of the state and legality of transactions in 2004. In the course of the audit of the annual report of the state, the SAO can not rely on the evaluation of the person responsible for the internal audit of the Ministry of Justice on the authenticity of state accounting entity's annual report and legality of transactions, because the person responsible for the internal audit did not evaluate the annual report of the Ministry of Justice as a whole.

Main observations

Organisation of accounting and internal audit system

In the area of government of the Ministry of Justice, the organisation of accounting is generally carried out well and in compliance with the general rules of state accountancy and good practice of accounting. The SAO auditors identified weaknesses only in a few areas.

- The Ministry of Justice has still not approved the accounting policies and procedures for the area of government, and the rules of cash management for the companies dealing with cash, although it is required by the general rules of state accountancy.
- Some errors were identified in the accounting of fixed assets: fixed assets have been registered as expenditure, fixed assets register and state assets register have not been compared, as a result of which the mistakes in the data of state assets register have not been identified.
- Accounting of income arising from long visits in Tartu Prison the recovery of all revenue and recording all revenue in accounting has not been ensured, as the established procedure is not sufficient in every point, and it is not always followed.

- In a reply to the draft audit report, The Minister of Justice stated that he will not establish common rules for granting the use of long visit rooms in the area of government and that each agency must establish its own rules for long visits pursuant to the Imprisonment Act and thus, ensure adherence to the said procedure

The State Audit Office draws attention to the fact that according to the Government of the Republic Act the Minister is obligated to supervise the performance of the duties of the state agencies in the area of government of the Ministry and to ensure implementation of the internal audit system in its area of government. Since this may be a broader issue, the SAO finds that the Minister should attend to it

- Misleading information has been given in the "Budget's revenue and expenditure account" belonging to the composition of the annual report.

Legality of economic transactions and financial management

Leasing contracts have been concluded in the area of government of the Ministry of Justice, some of which are leasing contracts in compliance with the conditions of capital lease. The SAO is of the opinion

that assets and liabilities related to the said contracts should be recorded in the balance sheet.

In a reply to the draft audit report, the Minister of Justice did not concur with the statement that the transaction's legal admissibility is laid down by Guideline No. 9 of Accounting Standards Board for the purposes of subsection 29(3) of State Budget Act. The Minister of Justice drew attention to this situation in January of the current year and made a proposition to the Minister of Finance to specify the prohibition of State Budget Act. In addition to this, the Minister of Justice did not concur with the statement that the economic lifetime of passenger cars was only 6 to 7 years.

According to the viewpoint of the Minister of Finance that was presented to the SAO, Guideline No. 9 of Accounting Standards Board has to be followed when recording lease contracts. The SAO agrees that the situation is unclear at the moment, but still relies on the interpretation of the Minister of Finance when making its evaluation. Useful lifetime of passenger cars in other state authorities, as well as in private sector, is generally five years. Arising from this, the SAO is of the opinion that the ten year lifetime established by the Ministry of Justice is overestimated.

Reliance on the work of the internal auditor

As a result of performed audit procedures the SAO is of the opinion that, when evaluating the consolidated annual report of the state, it can rely on the work of the internal auditors, but within the scope established by the person responsible for internal audit. The SAO also finds it necessary to note that the risk assessment of internal auditors differed from that of the SAO.

The evaluation of the person responsible for the internal audit of the Ministry of Justice states the following:

- The scope of the audit covered 61 % of balance sheet total and in the course of the audit Tallinn City Court, Tallinn Circuit Court, Administrative Court of Tallinn, Pärnu Prison, Tartu Prison (the SAO audit, which included the Internal Audit Department of the Ministry of Justice) and Public Prosecutor's Office were audited. As the volume of the audit did not provide sufficient certainty about the authenticity of the annual report and legality of economic transactions, only the part of balance sheet total given above was examined.
- The audit did not evaluate the Ministry of Justice's management report, balance of balance sheets and cash-flow statements as of 31.12.2003, and the revenue and expenditure account of 2003 state budget.
- Leaving aside the circumstances listed in comments and their potential affect on the financial situation of the Ministry of Justice, the annual report, which shows the Ministry of Justice's balance sheet total in 2004 to be EEK 752,992,000, total net loss of the accounting period – EEK567,599,000 and cash expenses – EEK 1,055,144,000, in audit's sample, which forms EEK 458,174,000 of balance sheet total, in compliance with Regulation No. 105 of the Minister of Finance "General rules of state accountancy" of 11.12.2003.
- In audited transactions, no relevant contradictions with current legislations were identified.

Internal auditors made two comments about the annual report of the area of government of the Ministry of Justice in 2004 – no evaluation was given on the recognition of state fees collected in 2004 and the correct and intact recognition of the claims and obligations vis-?-vis third parties under court order.

Opinion on the work of the internal auditors

In the evaluation of the SAO, the work of the internal auditors in auditing the annual report of the Ministry of Justice was in compliance with the guidelines of Financial Audit Manual of the Ministry of Finance. The SAO made the following observations about the work of the internal auditors:

- The Minister of Justice has not approved the strategic plan of internal auditing and yearly work schedule.
- The scope of the audit of the internal auditors was in some cases not sufficient from the viewpoint of financial year in relevant areas.

Follow-up audit of the audit observations of the previous year

As a result of the follow-up audit, the SAO found that the suggestions made in the previous year have generally been met.

Suggestions to the Minister of Justice

- Establish the accounting policies and procedures for the area of government of the Ministry of Justice pursuant to the requirements of the general rules of state accountancy.
- Bring the data of state assets register into conformity with the data of accounting.
- Supplement the internal audit systems of the area of government so that the accuracy of data given in annual report would be ensured.
- Approve the yearly work schedule of the Internal Audit Department.
- Consider the possibility to increase the number of auditors in the Internal Audit Department, to provide sufficient scope for evaluating the annual report.

In a reply, which was annexed to the audit report, the Minister of Justice stated that he concurs with the suggestions of the SAO and that some of the weaknesses have been eliminated by now, and precautions for the elimination of the rest of the weaknesses in the near future have been developed.

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