

Accounting procedure and economic activity of Single Signal Battalion in 2004

Audit report No. OSII-2-6/05/103 of August 12 2005

Summary

The SAO audited the economic activity in 2004 of the Single Signal Battalion, which lies in the area of government of the Ministry of Defence and is militarily organised, with the objective to evaluate the legality of Single Signal Battalion's economic transactions, organisation of accounting and reporting, and functioning of internal audit systems. At the end of 2004, Single Signal Battalion's assets formed EEK 50.7 million. EEK 34.6 million was allocated to the battalion from the state budget in 2004.

Main observations and conclusions

Within audited activities, the accounting in Single Signal Battalion was organised according to the general accounting rules and audited economic activities were mostly in compliance with relevant valid legislation. The level of accounting and functioning of internal audit systems is generally satisfactory. Several identified problems are intrinsic not only of Single Signal Battalion and these should be solved in a higher management level.

Weaknesses in accounting and internal auditing:

- Internal audit procedures were not always sufficient enough to provide the proper recognition of all assets in accounting and stock records, and that compromises the preservation of assets.
 - Weaknesses were identified in the accounting of assets, as a result of which the accounting and stock records data did not always provide a correct and reliable overview of existing assets and their value.
 - Assets obtained via the centralised procedure were registered in the accounting documents much later than required.
- There were cases when the reasons for writing off were not given in the acts of writing off clothing supply or the destruction certificates were nonexistent.
- No proprietary liability contracts were concluded in Single Signal Battalion with persons, who are responsible for the registration and preservation of tangible assets.

Weaknesses in financial management and legality of economic transactions:

- Money not used by the end of 2004 was in many cases spent on other purpose or advance payments without receiving an invoice. The amount of advance payments was evaluated roughly. Also, during the last days of December, significant sums for repairs and obtainment of equipment were transferred as advance payments. The advance payments were justified as a lingering process of budget amendments (budget amendments were approved by the minister only in the second half of December) and the need to keep reserves for the end of the year. The SAO finds is of the opinion that such financial management, where several necessary expenditure is carried out only at the end of the year can act as an impediment to the activity and development of the military unit.
- Gifts given to employers and conscripts were not taxed with fringe benefit tax. Weaknesses in filling in expense receipts were identified in relation with representation expenses and making gifts, information related to the use of objects and souvenirs was often missing from accounting.
- The terms and conditions of some contracts are damaging to the battalion and contrary to State Assets Act:
 - Single Signal Battalion has concluded a commercial lease contract with private limited company Nermalin, who runs a so-called soldiers' home. According to the contract, the rooms of the battalion are given to the use of the private limited company with the price of EEK 5 per m2 per month, which is significantly less than market price;
 - Assets have been given to the use of the tenant for free. The commercial lease contract does not regulate, if and how much the private limited company pays for water, electricity, fuel and other administrative expenditure;
 - In the case of the decrease in the volume of work, the contract value is not always changed and that can cause needless expenditure.

- The weapons of General Staff of Armed Forces are kept in Single Signal Battalion. This is contrary to the directive of the Commander of the Defence Forces, which prohibits the movement of armaments between military units and/or institutions of central subordination.

Other observations

- As the result of the inspection of the General Staff of Armed Forces, it was noted that the battalion lacks required training conditions, but at the same time, the problems impeding the development of training are beyond their powers and this has put the development of the training centre in 12 Filtri Road into question.

Main suggestions

To the Minister of Defence

- Analyse the reasons and develop precautions for accelerating the process of reasoned amending of the budgets of sub-offices to avoid needless advance payments and accelerate the completion of necessary buildings and other objects.
- Supplement the internal audit systems in the area of government of the Ministry of Defence in such a way that the timely registration and write-off of fixed assets obtained and issued in a centralised procedure would be guaranteed. Specific time limits should be established in the accounting policies and procedures of the area of government of the Ministry of Defence.
- Develop a common procedure for the area of government, which would regulate the expenditure on gifts and other expenses regarded as fringe benefits, establishing in which cases and in what scope it is allowed to make gifts, taking into account the prerequisite that making gifts is more of an exception than a rule.
- Develop common principles for the functioning of the so-called soldiers' homes in militarily organised institutions, taking into account the interests of all parties and good practice of the rest of the world.
- Develop rules that would regulate exactly with who and on what conditions proprietary liability contracts will be concluded, which would take into account the interests of both parties.

To the Commander of the Defence Forces

- Find out and quickly decide whether continuing the activity of Single Signal Battalion in the neighbourhood of Filtri Road is reasonable, taking into account the development plan of the Defence Forces.
- Create an opportunity for storing the weapons of the officers of General Staff of Armed Forces on the premises of General Staff of Armed Forces.

To the Commander of the Single Signal Battalion

- Organise the accounting of assets so that constat control of all assets would be ensured, following the common accounting policies and establishing current comparisons in stock records and accounting.
- Specify the job descriptions so that the requirements for issuing clothing supplies, declaring it unserviceable, writing it off and its destruction would be met.
- Comply with the purpose of expenditure established in the budget.
- Review all contracts and when concluding contracts, comply with the state's interests, especially on rebalancing the parties' liabilities. If the volume of order changes, timely suggestions for amending the terms and conditions of maintenance contracts, commercial lease contracts, contracts for services and other contracts should be made.

In a reply to the draft audit report, The Minister of Defence concurred with the conclusions and suggestions of the SAO and gave an overview of the planned actions. The minister promised to develop a common procedure in the area of government, which would regulate the expenditure on gifts and other expenses regarded as fringe benefits, and rules that would regulate exactly the conditions of concluding proprietary liability contracts.

The Commander of the Defence Forces was of the opinion that the decision on the future location of the training centre should not be adopted in a hurry. A committee has been established in the Ministry of Defence to plan the infrastructure. The task of this committee is to come up with suggestions for developing prospective training centres of the Defence Forces in a five year perspective.

The Commander of Single Signal Battalion gave an overview of the planned precautions to be taken to meet the suggestions of the SAO.

The SAO finds that today, when more than a year has passed from the accession to NATO and a strategic development plan "Structure and Development Plan of Defence Forces until the year 2010" has been adopted, it is necessary to finally decide, which training centres should be developed further and which should be closed or reformed to avoid needless expenditure in the future and make the investments as expedient as possible.

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