Economic activities of Estonian Television

Audit report No. OSIII-2-6/06/42 of 26 June 2006

Summary

The goal of the audit was to assess the economic activities of Estonian Television (ETV) in 2005, focusing on the connection of the economic transactions with the primary goals of the activities and to identify whether the activities of the audited upon using its assets and funds are legal, sustainable and purposeful and whether the financial management is successful and the internal audit system functions as required.

As a result of the audit the National Audit Office came to the conclusion that the financial management and organisation of accounting the economic activities of Estonian Television are at a good level. However, the established internal audit system needs some improvement in order to increase the certainty that the accurate and reliable accounting and preservation of tangible assets and purposeful and legal use of the funds are ensured.

Main observations

- Estonian Television has not used all the possibilities of earning the maximum income from granting use of their premises. No public auctions have been organised for letting the premises and possibilities arising from contracts to raise the rent charged from lessees have not been seized. The National Audit Office finds that the rent is low and in most cases this low rent already includes public utility and other costs, which makes the actual rent even lower. According to the National Audit Office, through 2000-2010 ETV loses 2.6 million Estonian kroons of rent due to letting its premises on unfavourable terms and conditions and compensating the lessees for their redecoration expenses.
- Purchasing supplies and outsourcing requires better coordination between the structural units of ETV in order to get an adequate overview of the need for the supplies and outsourcing. Thereafter it will be possible to organise open tendering procedures in order to ensure more sustainable use of funds. During the audited period in several instances goods and services had been purchased from suppliers by way of a simplified procedure, without organising any open tendering procedures.
- The organisation of remuneration of the employees of ETV needs improving in order to ensure justified and transparent use of the money allocated for remuneration. During the audit it became evident that remuneration rules have been established, but in some instances they were not followed. In several instances it was not clear what various supplementary remuneration had been paid for.
- Shortcomings were detected with regard to employment contracts and payment of remuneration on the basis thereof. Some employment contracts had been made only after performance of the work. In many contracts there were no pay calculations. In several instances payments had been made without having any contract.
- ETV's loan burden is in compliance with that permitted in the Broadcasting Act, because in the years of making the repayments the total amount of the repayments of loans and financial lease, less the repayments of the loans secured with the state's guarantee, do not exceed 10% of the budget income of ETV in these years.
- The money received as project support intended for a specific purpose has been spent for the intended purpose for production of the programmes prescribed in the contracts.

Main suggestions

- The Broadcasting Council should demand that the Management Board of ETV report on the use of the fixed assets and obligate the Management Board to constantly analyse the profitability of granting use of the fixed assets and possibilities of increasing the profitability. The Broadcasting Council should also regulate in grater detail the procedure for granting use of the premises, stipulating letting the premises by way of an open tendering procedure therein and thereafter demand that information about implementing it be submitted.
- The Management Board of ET should improve the internal audit system in such a manner that entry into lease contracts on the terms and conditions favourable for ETV and monitoring the compliance with the terms and conditions of the contracts, organisation of tenders by way of an

open tendering procedure and entry into written contracts before performance of the work are ensured. The Management Board of ETV must also draft and establish new remuneration rules.

***

In a joint letter of reply the Chairman of the Broadcasting Council and the Chairman of the Management Board of ETV gave additional explanations regarding the observations and conclusions made in the draft audit report and presented a thorough action plan for implementation of the suggestions.

The National Audit Office recognises the steps taken by the Broadcasting Council and the Management Board of ETV for eliminating the shortcomings identified during the audit. The action plan established for improvement of the internal audit system with its specific deadlines and persons in charge is especially noteworthy.

Jüri Kõrge
Director of Audit
Audit Department III