Audit of the accuracy of the annual accounts 2005 and the legality of the transactions of the Ministry of Culture for the purpose of assessment of the consolidated annual report 2005 of the state

Audit report No. OSIII-2-6/06/60 of 14 July 2006

Summary

According to the State Budget Act, the NAO must assess the state's consolidated annual report and the legality of transactions in 2005.

The NAO conducted an audit titled 'Audit of the accuracy of the annual accounts 2005 and the legality of the transactions of the Ministry of Culture for the purpose of assessment of the consolidated annual report 2005 of the state' for the purpose of assessing those balances of the annual accounts of the Ministry of Culture which are of importance from the point of view of the state's consolidated annual report. In the course of the audit the NAO also relied on the work carried out by the Ministry and internal auditors of the authorities in the area of government.

The important transaction classes from the point of view of the state's annual report included those related to fixed assets, loan commitments, aids, other aids, administration and staff expenditure. The NAO audited all these transaction classes.

Not taking into account the effect of the comments given below, according to the NAO, the balances of the audited transaction classes have been accounted accurately in material respects in the annual report of the Ministry of Culture as of 31 December 2005.

Comments

- The balances of Eesti Kontsert do not record the cost of Jõhvi Concert Hall and the obligation of 137.1 million kroons accompanying its financing. According to the accounting principles, a usufruct agreement concluded under the terms of financial lease has to be recorded in accounting.
- The balances of the Art Museum of Estonia do not record the assets without charge worth 579.7 million kroons pursuant to the procedure established in the general rules of state accountancy.
- The accounting of the authorities in the area of government do not record as investment properties every building or parts of building given to the use of units not belonging to public sector or to private persons.

According to the NAO, the economic transactions included in the sample had been made in compliance with the main legislation regulating them, except for the violation of the State Budget Act given in the comment.

Comment

- In some cases, the State Budget Act had been violated by concluding contracts under the terms of financial lease and the conclusion of factoring contracts basically meant that loans had been taken.

In addition to the assessment, the observations regarding the organisation of accounting, accuracy of transactions and functioning of internal audit systems made in the course of the audit are also given for each audited area, due to the irrelevancy of sums these do not influence the opinion of the NAO regarding the accuracy of audited transaction classes and economic transactions, but refer to the shortcomings in the internal audit system. For the elimination of said shortcomings the NAO has submitted proposals to the Minister of Culture.

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In a letter of reply **the Minister of Culture** gave additional explanations regarding the observations and conclusions made in the draft audit report and informed the NAO of the implemented measures. The Minister did not concur with the fact that the usufruct agreement of Jõhvi Concert Hall and the agreement according to which the new building and furnishings of the art museum passed into the use of the Art Museum of Estonia given in the draft audit report had not been recorded.

The NAO retains its point of view stated in the audit report that all transactions must be recorded in accounting based on their economic substance. The NAO also notes that the recorded decision of the Government of the Republic of 13 July 2006, the Minister of Culture was required to carry out the improvement of the accounting information of the Art Museum of Estonia and the Foundation for Building the Art Museum in relation with the contract for use concluded for the use of KUMU and the improvement of the accounting information of Eesti Kontsert regarding the agreement concluded for the reconstruction of Jõhvi Concert Hall.

Jüri Kõrge
Chief Auditor
Audit Department III