# Organisation of accounting and lawfulness of transactions in the Road Administration, the North Regional Road Administration and the Viru Road Management Institution

**Audit Report No. OSIV-2-6/06/24 of April 26, 2006**

### Summary

In cooperation with the Internal Audit Department of the Ministry of Economic Affairs and Communications, the SAO audited the economic activities of the Road Administration, its sub-office North Regional Road Administration and the governmental authority Viru Road Management Institution under its administration, with the aim to evaluate the financial management, organisation of accounting, lawfulness of economic transactions and functioning of the internal audit system.

At the end of 2004, the value of state assets in the possession of these three institutions was EEK 2.4 billion and their operational expenditure in this year was EEK 457 million, i.e. they possessed 49 % of the assets of the Road Administration and its sub-offices and they accounted for 49 % of the operational expenditure.

### Major observations and conclusions

- The organisation of accounting and lawfulness of economic transactions in the audited institutions were substantially in accordance with the requirements of the Accounting Act, the general rules for state accounting and good accounting practice. Essential mistakes were not identified in the determination and payment of remuneration either.
- The level of the organisation of accounting in the Road Administration and its sub-offices during the period covered by the audit was unsteady. For example, the principles of reflecting revenues and expenditure of the same nature and accounting uncompleted constructions differed between the institutions, however, in the latter case, the accounting was in accordance with the general rules only in the Road Administration and not in the sub-offices; in the North Regional Road Administration, there were errors in the calculation of VAT, while the calculation in the Road Administration and Viru Road Management Institution was correct, etc. The Road Administration explained the differences in the accounts of the sub offices by the fact that the Ministry of Economic Affairs and Communications does not have relevant instructions and the Administration does not have the power to give them; single rules in this matter were laid down only in 2006.
- The budgets of the Road Administration and its sub-offices did not reflect all of the estimated revenues from economic activities and the expenditure to be covered by these revenues. The amount of estimated revenues from economic activities to be transferred to the budgets of the audited institutions was EEK 1 million, but already in the first eight months of 2005, the amount of the received revenues was EEK 10.9 million. According to the explanations of the Road Administration, the revenues from economic activities were reflected in the budgets of the sub offices until 2006 only as the difference between the revenues and the estimated expenditures for receiving these revenues; starting from 2006, the revenues and expenditures in the budget are shown in their full amount.
- In granting the state assets, the sub offices had not always adhered to the requirement of the State Assets Act to try to increase the benefit that the state may gain as much as possible. The explanations of the Road Administration that this has been done out of a wish to ensure the preservation and improvement of the state assets are not convincing.
- Not enough attention was paid to the preparation of procurements; yearly procurement plans of the institutions included only the procurements co financed by the EU funds. Due to the mistakes made in the planning of and in the course of the procurements, several procurements had failed, and several procurement objects and their cost had changed significantly in the course of the procurement. According to the explanations of the Road Administration, the main cause of the failures is the regulation in the Public Procurement Act that restricts the required interest of contracting authorities too much.
- The internal audit system of the Road Administration did not correspond to the international internal audit standards. The internal audit has failed to provide necessary information to the

managers of the Road Administration on the organisation of the accounts and asset transactions in the sub offices.

- The Administration does not consider the assessment of the organisation of accounting, the authenticity of financial reporting and the state asset transactions in the North Regional Road Administration and road management institutions to be its duty. The Road Administration regards its sub offices in the administration of these matters as independent, taking the view that in these matters, the Administration must not and cannot intervene in the activities of the sub offices. The Administration maintains that the duty of the Administration established in the statutes to coordinate the accounting and reporting of the sub offices does not include the obligation to assess the concerned activities and take measures in case of deficiencies. The Administration feels that it is the responsibility of the Ministry of Economic Affairs and Communications. According to the explanation of the Road Administration, there has been sufficient training organised for the workers of the sub offices and recommendations of general nature have been given for the planning of revenue and expenditure, the keeping of accounts, the accounting of state assets and the organisation of transactions involving state assets.

The audited institutions took account of many of the auditors' observations already during the audit and took measures to eliminate the identified deficiencies.

The auditors find that many of the deficiencies referred to in the audit are caused due to the uncertainty whether and to which extent should the Road Administration audit the accounts of the sub offices and the transactions involving the state assets under their administration.

### Main proposals

**To the Minister of Economic Affairs and Communications**

- Establish the obligation of the Road Administration in the statutes of the Administration to audit the keeping and authenticity of accounts in the sub offices and in case of deficiencies, to take measures to eliminate them.
- Prescribe that budgets of the Road Administration and its sub offices must reflect all the estimated receipts as own revenue (income from the sales of services and goods and executed works) and the related expenditures.

**To the Director General of the Road Administration**

- When coordinating the draft budgets of the sub offices, monitor that the amount of own revenues of the institutions and the expenditures to be incurred to receive them are planned in the full amount.
- In order to reduce and facilitate the work of sub offices and to create additional opportunities for the Road Administration in coordinating the sub offices' accounts, consider the option of centralising the accountancy of the Road Administration and its sub offices either entirely or partially.
- Order that the sub offices would propose to the lessees to review the concluded rental contracts in order to raise the rent in a specific area to the extent that is usually charged for the use of analogous assets and inform the Road Administration about the measures implemented for this purpose and their results.
- Ensure compliance of the activities of the Internal Audit Department of the Road Administration with international internal audit standards, general internal audit rules for authorities of executive power and good practice of internal audit.

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**The Ministry of Economic Affairs and Communications** notified that starting from 2006, the Ministry has put the Road Administration under the obligation to establish additional requirements for accounting and reporting by single accounting policies and procedures for its own accountancy and the accountancies of its sub-offices. The Ministry also considers the option of centralising the accountancy of the Road Administration and it sub offices. In future activities, the proposal on reflecting all own revenues and the related expenditures is taken account of.

**The Director General of the Road Administration** agreed to most of the proposals made to him. In his reply, he repeated his view he already stated during the audit, that in the period covered by the audit, the Administration was not entitled nor obliged to harmonise the accounting of transactions of the same nature in its sub offices. The Director General indicated that starting from 2006, with reference to the decision by the Ministry of Economic Affairs and Communications, the situation in this matter has become normal. In the current stage of development of the organisation, he did not consider the centralisation of the accountancy of the institutions to be rational. The Director General notified that he has deemed it to be his duty to assess the financial management and transactions involving state assets in the North Regional Road Administration and road management institutions.

The full texts of the responses of the Minister of Economic Affairs, the Director General of the Road Administration, the Acting Director of the North Regional Road Administration and the Manager of the Viru Road Administration Institution have been attached to the audit report.

Olav Lüüs
Chief Auditor
Audit Department IV