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

Audit report No. OSII-2-6/06/81 of 6 September 2006

Summary

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

The National Audit Office conducted an audit titled 'Audit of the accuracy of the annual accounts 2005 and the legality of the transactions of the Ministry of the Interior 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 the Interior which are of importance from the point of view of the state's consolidated annual report. The audit did not cover the balances in the county governments in the area of government of the Ministry of the Interior or the agencies administered by the county governments.

From the point of view of the state's annual accounts the important transaction classes in the Ministry of the Interior were as follows: other receivables and repayments; tangible assets; other payables and prepayments received; targeted financing (long-term liabilities); support received; other revenue; labour expenses; administration costs and other operating expenses. The National Audit Office audited all these transaction classes.

According to the National Audit Office, the balances of the audited transaction classes have been accounted accurately in material respects in the annual report of the Ministry of the Interior as of 31 December 2005.

According to the National Audit Office, the economic transactions included in the sample had been made in compliance with the key legislation regulating them, except as set out in the note.

Note. In certain instances the agencies in the area of government of the Ministry of the Interior did not adhere to the procedure provided in the Public Procurement Act in purchasing goods and services in 2005.

In addition to the assessment, the main observations have been pointed out regarding the organisation of accounting, the legality of the transactions and the operativeness of the internal control system, which do not affect the opinion of the National Audit Office on the accuracy of the transaction classes or the legality of the economic transactions because of the irrelevance of the sums, but do refer to deficiencies in the internal control system. The National Audit Office has made recommendations to the Minister of the Interior for elimination of the deficiencies.

The audit report also points out the problems that the National Audit Office has identified during other audits carried out in the area of government of the Ministry of the Interior. The observed problems affect the consolidated annual report 2005 of the Ministry of the Interior. At the same time these do not affect the assessment of the National Audit Office, because they do not concern the transaction classes audited during this audit carried out by the National Audit Office.

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The Minister of the Interior does not agree with the recommendation of the National Audit Office to write uncollectible fines off the balance sheet and keep account of them outside the balance sheet. The Minister of the Interior notes that fines are claims arising from application of penal law, as a result of which they cannot be handled in the same manner as civil law claims. A fine, a claim arising from misdemeanour proceedings, is terminated either by accrual of money, a new court judgment or a decision of a bailiff to terminate the execution proceedings on the basis provided by law. The police write uncollectible fines off the balance sheet after the fine has been deleted also in the POLIS database.

The National Audit Office understands the explanations of the Minister of the Interior, but remains

true to its position. According to the National Audit Office the off-balance sheet accounting of uncollectible claims does not hinder comparison of the data with the POLIS database. The accounting treatment of the claims is not based on a comprehensive substantive analysis of the claims and declaring claims uncollectible is a conservative estimated decision. For instance, the National Audit Office finds that claims dating back to 2000 should be declared uncollectible for accounting purposes. However, this does not mean that the process of collection of these claims could stop, if it has to continue according to law. Upon preparation of the annual accounts it must be proceeded from the principles according to which the overassessment of assets and revenue and underassessment of liabilities and expenditure should be avoided. The

Minister of the Interior also disagrees with the recommendation to differentiate between additional days off granted for overtime work, because overtime working hours are indicated at the end of the summarised working time accounting period, when they are remunerated.

However, **the National Audit Office** nevertheless recommends establishing a more transparent system of compensation for overtime work, in order to ensure the protection of the legal rights of the employees.

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