Economic activities of the National Opera

Audit Report No. OSIII-2-1.4/07/14 of 10 April 2007

Summary

The purpose of the audit was to assess the economic activities of the National Opera in 2005 and in the first half-year of 2006, focusing on the relatedness of economic transactions with the primary objectives of the activities of the National Opera, and to highlight essential observations concerning the lawfulness of transactions (incl. organisation of public procurements), as well as financial management, organisation of accounting and the functioning of the internal control system.

According to the evaluation of the National Audit Office, the organisation of the economic activities of the National Opera needs to be improved, as the internal control system that should ensure the lawfulness of transactions and a correct and reliable accounting of material values is not functioning adequately.

Main observations

- The National Opera has used two different approaches to the recognition of contracts and agreements signed with sponsors, supporters and cooperation partners. Some of the transactions concluded under the contracts and agreements have been treated as exchange of services and the sales revenue earned as a result of these transactions was recognised in the fair value of goods or services received pursuant to the generally accepted accounting principles. However, some services received under the contracts and agreements were not recorded as revenue in the fair value of the services. The National Audit Office is of the opinion that such a practice of recognising cooperation and barter agreements in accounting may cause mistakes in financial statements. Financial statements prepared in accordance with such a practice fail to indicate the actual volume of revenues and expenses. In addition, it is impossible to fully identify whether the cooperation agreements have been beneficial for the National Opera or to ascertain the amount of revenues earned on account of various cooperation agreements.
- As regards the accounting of operating expenses, the requirements arising from the Accounting Act, the generally accepted accounting principles, the general rules for state accounting and the internal accounting policies and procedures of the National Opera were ignored on several occasions. For example, on some occasions the revenue and expenditure matching principle prescribed by the Accounting Act was not adhered to in the accounting of production-related expenses; also, on some occasions targeted financing was recorded using the net method (no revenues or expenses were recorded), even though the general rules for state accounting prescribe that the gross method is to be applied in the recording of targeted financing.
- Some of the buildings and two structures situated on the registered immovable at Suur-Sõjamäe 44 have not been recorded in the accounting of the National Opera.
- As regards the organisation of public procurements, the Public Procurement Act was ignored on several occasions. On one occasion the procurement contract was signed on conditions that differed from the conditions set out in the invitation-to-tender documents. On one occasion the procurement was divided into parts so as to avoid organising a public procurement tendering procedure. In the case of several procurements of goods or services, negotiations were not conducted with at least three bidders, while the values of the goods and services were lower than the value threshold established with regard to public procurements and while there were many bidders.
- Mistakes were made in recording foreign currency transactions, in the assignment of expenses and revenues to periods, in accounting fixed assets and in the repayment and write-off of study loans. The internal control system failed to ensure the correctness of payment of compensation for using a person’s own car, the correct accounting of construction materials and the consistent numbering of sales invoices.
- The Articles of Association of the National Opera, as approved by the supervisory board of the National Opera, provide for the possibility of having holdings in companies, even though the laws only permit the National Opera to establish a foundation to support its activities.

Major recommendations

To the supervisory board of the National Opera

- To decide upon the liability of persons guilty of the violations of the Public Procurement Act and to require the Director General to employ measures to improve the way of organising public procurements.
- To bring the Articles of Association of the National Opera into conformity to the requirements prescribed by the legislation.
- To commence the termination of the activities of Rahvusooperi Teeninduse OÜ and to liquidate the private limited company pursuant to the procedure established by the Commercial Code.

To the Director General of the National Opera

- To ensure that all transactions arising from cooperation and barter agreements will henceforth be recorded in the accounting in compliance with the generally accepted accounting principles.
- To draw up an inventory of production-related revenues and expenses to be carried over at the end of the year and to record these revenues and expenses in the accounting in compliance with the matching principle. To rectify the mistakes that have been made in the accounting as a result of incorrect entries.
- To recognise all buildings and structures situated on the registered immovable at -Sõjamäe 44 in books and records.
- To strengthen and improve the internal control system so as to ensure compliance with the requirements arising from legislation.

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The chairman of the supervisory board of the National Opera has informed the National Audit Office that the draft audit report was discussed at the meeting held on 4 April 2007 and that an action plan for elimination of shortcomings suggested by the Director General was approved at that meeting. According to the response received from the National Opera, the supervisory board intends to focus on strengthening and improving the internal control system.

In his response, the Director General of the National Opera provided additional explanations with regard to the draft audit report and informed the National Audit Office of the measures that have been employed for the purpose of elimination of shortcomings. The General Director also stated that the National Opera would respect the opinions of the National Audit Office and introduce appropriate measures in the audited spheres.

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