Audit of the accuracy of the annual accounts 2006 and the legality of transactions of the Ministry of the Interior for the purpose of providing an opinion on the government's consolidated annual report

Report of the National Audit Office to the Riigikogu, Tallinn, 6 July 2007

Assessment, comment and observations of the National Audit Office as to the accuracy of the reporting of audited transaction categories in the annual report and the legality of transactions

Material deficiencies in fixed asset accounts

1. The NAO finds that there are material deficiencies in the fixed asset accounts in the government area of the Ministry of the Interior, and thus the accounting records and the reports based thereon do not provide an accurate and reliable overview of assets in the Ministry’s government area. Material deficiencies are evidenced by the following mistakes:

2. According to the general rules of state accountancy, fixed assets must be revaluated by 31 December 2005. The audit revealed that as of 31.12.2006 the revaluation had been done only in part. Some fixed assets have not been revaluated in the agencies administered by the Rescue Board and in county governments and their subordinate agencies. At the beginning of the preceding year, the Rescue Board administered 15 rescue services, which in 2006 were merged into 4 rescue centres, but revaluation had been omitted in 9 services. In 2007, the NAO conducted an audit titled “Value of buildings governed by country governments and their necessity for the performance of duties of county governments and their subordinate agencies."

3. The county governments and their subordinate agencies displayed shortcomings in the classification of fixed assets. For example, buildings which under the general rules of state accountancy should have been recognised as real estate investments had been classified as fixed assets. Off-balance sheet items included buildings which were actually in use and which must under the said general rules be recognised on the balance sheet.

4. In some agencies governed by the Ministry of the Interior, the said general rules and the Ministry's relevant guidelines were ignored in fixed asset inventory checks. In addition, fixed asset improvements have been expensed, instead of adding to the building's acquisition cost.

Shortcomings in recognising the audited transaction categories

5. According to the NAO, the balances of audited transaction categories have been recognised correctly in material part in the Ministry of the Interior's annual report as at 31.12.2006, except for the comment on fixed assets in point 1.

6. In the course of assessing the accuracy of indicators in the Ministry’s annual report, the NAO examined conformity with the Accounting Act, the relevant Regulations of the Minister of Finance and the generally accepted accounting principles for only those transaction categories (see table on page 12) having relevance for the government's consolidated annual report.

The transactions have been effected legitimately

7. The economic transactions in the sample have been effected in accordance with the State Budget Act and the 2006 State Budget Act and Supplementary Budget Act.

The Public Procurement Act has still not been respected on all occasions in the Ministry’s government area

8. For example, in December 2006, the Rescue Board acquired 24 floating pumps from Tamrex Ohutus Plc in two consignments with a total cost of EEK 589,056 (including VAT) without invitation to tender.

9. In addition, many agencies in the government area have repeatedly ignored § 2 of the Public Procurement Act, which requires the contracting authority to submit a contract award notice to the national register of public procurement within 10 from the entry into the procurement contract, if the

value of the procurement contract net of value added tax is EEK 100,000 or more upon purchasing of goods or contracting for services.

10. **Recommendation by the NAO**: to improve the internal control system in the government area to ensure compliance with the Public Procurement Act.

Reply from the Minister of the Interior: The Ministry of the Interior has assumed the major role in co-ordinating procurement in its government area. For public procurements, there will be more joint procurements within the administration area.

The Procedure for Implementing Public Procurement in the Government Area of the Ministry of the Interior which provides the requirements for the management of procurement has been adopted with Directive No. 41 L of 01.02.2007 of the Minister of the Interior.

The said procedure provides for the obligation of the government area agencies to submit by the end of the fourth quarter the procurements plans for next year and to submit once every six months to the Ministry's Procurement Bureau a report on the implementation of the procurement plan. Procurement planning ensures adequate planning and avoids division of procurements.

Furthermore, the Procurement Bureau of the Ministry is required to supervise the procurement procedures of agencies in the government area whether independently or in co-operation with auditors, and to propose audits. In 2007, the Procurement Bureau of the Administrative Department of the Ministry audited the procurement activities of the Rescue Board.

In addition, in order to follow the Public Procurement Act, the Rescue Board has renewed the procurement guidelines, which provide for detailed procurement implementation procedures, the competencies and obligations of all parties and the limits of responsibility. The officials dealing with the technical aspects of procurements have received in-service training and in conjunction with introducing the new procurement guidelines they are educating the other officials of the Rescue Board.

The holiday pay calculation procedure established by the Government of the Republic has been frequently ignored in the Ministry’s government area

11. There were recurrent problems with observing the holiday pay calculation procedure in several agencies in the Ministry's government area and in the Ministry itself. For instance, in some cases the average daily salary was calculated without including the bonuses paid for the period. In some cases, the bonuses were accounted for as additional remuneration for the month of payment and not distributed evenly over the months for which it was earned. The holiday pay was not calculated on the basis of remuneration and bonuses paid for one month as provided for in the procedure, but on the basis of one month's salary.

12. **Recommendation by the NAO:** to supplement the internal accounting rules with the holiday pay calculation procedure and, upon the award of bonuses, to indicate precisely and clearly the period for which the bonus is paid.

Reply from the Minister of the Interior: The Ministry will consider supplementing the internal accounting rules with the holiday pay calculation procedure which would among other things provide for the requirement to indicate more precisely and clearly for what the bonus is paid. The Ministry believes that it is essential to specify whether the bonus is paid for a certain outcome or for outstanding performance during a certain period. Recognition of such bonuses in the accounts could differ by basis of award. We are trying to detail the procedure in a manner which avoids increasing the administrative burden of executives on different levels and support services.

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