Economic activities of the Tallinn University of Technology

Audit report No. OSIII-2-1.4/07/12 of 29 March 2007

Summary

The aim of the audit was to assess the economic activities of the Tallinn University of Technology (TUT) in 2005 and the first half of 2006, while focusing on the relation of economic transactions to the main objectives of the activities; make sure whether the activities of the auditable in using assets and funds is lawful, economical and expedient, whether the financial management is successful and the internal control system functions as required.

The results of the audit revealed that the economic activities of Tallinn University of Technology were mostly well-organised. However, several observations pointed out in the report imply that the established internal control system does not function sufficiently enough to ensure the proper and reliable registration and preservation of tangible assets, nor the expedient and lawful use of funds.

Main observations

- The TUT has failed to revalue a big part of fixed assets to their just value. While an expert assessment was ordered to establish the just value of re-valued buildings, the cost of abovementioned buildings recorded in the accounting of the University was several times less than the said amount. Also, there were no sufficient documented reasons and management's assessments, which the amendment of cost given in the expert assessment was based on. Thus, it can be concluded that the annual accounts of the TUT do not record the University's assets in their just value, and as the indicators of the University's annual accounts are added to the consolidated report of the state, it also generates an error on state level.
- The University did not have documented consolidated data on how much of the fixed assets the University uses for own consumption and how much is given to the use of other persons (incl. equipment and appliances) as well as how much space is left unused. In most cases, the TUT had not organised public tenders to find lessees. In some cases the concluded rental contracts included unfavourable conditions to the university, and it had failed to seize the opportunity to increase rent regarding previously recorded rental contracts. In some cases, the University had failed to submit invoices pursuant to contracts, which is why the amounts due had not accrued on time.
- In some cases, the University had not organised public procurements, thus violating the requirements of the Public Procurement Act. The University had drawn up a public procurement plan but several actually organised procurements were not included in it. This shows that the University had not determined the volumes of purchase in the right time, although this enables a better planning of procurements and making purchases through public tender and guarantees the economical use of University's funds. In some cases, the good practice of public procurement had not been complied with and regarding public procurements whose procurement contract's estimated cost without value added tax is less than the limits laid down by the Public Procurement Act, negotiations had not been conducted with at least three tenderers. In some cases, the University had failed to submit public procurement declarations when required. Several shortcomings were identified in the recording of procurement contracts as well as registration of acceptance of contract work.
- The internal control system did not function in the University, which should ensure the proper and reliable calculations and preservation of cash as well as timely and comprehensive registration of all bank transactions in accounting. Some structural units had failed to submit cash sales reports by the required time and pay the amount accrued in the previous period to the University's funds. Violating the requirements of the Accounting Act, the University did not register in accounting all transactions made in the bank accounts' subaccounts.
- In several cases, upon the organisation of calculation of operational expenditure, the requirements established by the Accounting Act, accounting principles, general rules of state accountancy and university's own accounting policies and procedures were not complied with.

So, in several cases sums that should have been recorded as advance payments had been written off. In many cases assets to be registered as fixed assets had also been written off.

- The accounting policies and procedures of the TUT, valid as of 2002, are out of date. They have neither been supplemented on the basis of the general rules of state accountancy nor adjusted upon the change in the requirements of accounting principles.
- In many cases, the heads of the University's structural units had concluded contracts for services and authorisation agreements with the University's employees, although the Rector of the TUT had issued authorisation documents which did not allow for it. Also, in some cases no legal instruments were drawn up for the receipt and delivery of works. The University accepted a far larger number of persons as signatories than allowed with the established procedure.
- The TUT is the sole holder of OÜ TTÜ Sütiste Maja. The business plan for said company envisaged large investments, but it did not succeed in receiving the estimated volume of revenue. The Management Board did not take sufficient measures to increase the revenue. For instance, no auctions were organised in order to receive larger income from leasing, and some rooms were not leased.

Main recommendations

To the Supervisory Board of the TUT

- Require explanations from the Rector on why the assessments and reasons of the Management were not documented upon the revaluation of fixed assets, and form an opinion on the registration of the University's assets in their just value as well as prescribe corresponding activities.
- Require the Rector to give an overview of all rental contracts and make a decision regarding the implementation of measures in order to make them more suitable for the University's interests, if possible, or take measures to terminate them prior to the deadline.
- Through its representatives strengthen control over the activities of legal persons established by the TUT or legal persons with TUT participations.

To the Rector of the TUT

- Ensure the timely identification of goods and services to be purchased and arising from that, the preparation of procurement plans.
- Supplement internal control systems so as to ensure the proper and reliable calculation and preservation of cash as well as timely and comprehensive registration of all bank transactions in accounting; conclude proprietary liability contracts with all receivers of cash.
- Improve the University's internal control system so as to ensure the registration of all University's assets and that only authorised persons would conclude contracts in the name of the University.

***

In his reply, the Minister of Culture in the capacity of the Minister of Education and Research stated that he agrees with the necessity to regulate student places with reduced fees and that it will be tried to take into account in 2007 legislative drafting. Registered immovable at 35 Järveküla tee in Kohtla-Järve shall be transferred to the University free of charge, according to the reply of the Minister, it shall be decided in the Economic Committee of the Parliament in the next few weeks.

The Rector of the TUT stated that the University's Supervisory Board discussed the draft audit report of the NAO at its meeting of 20 March 2007 and adopted a decision that planned necessary measures for a better overview of the University's economic activities and elimination of the shortcomings identified in the course of the audit. According to the letter of reply, the University concurred with all recommendations made in the draft audit report.

The National Audit Office acknowledges the very constructive attitude and activity of the University's Rector and Supervisory Board in eliminating the shortcomings identified in the audit. It is worth pointing out that the Rector has already taken several measures to eliminate the shortcomings identified in the course of the audit and the Supervisory Board has approved a plan of measures with specific deadlines and responsible persons to improve the University’s internal control system.

Jüri Kõrge
Chief Auditor
Audit Department III