

RIIGIKONTROLL

Annual Report 2000



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of the whole year?

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discussion about the notions of
accountability and responsibility.

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Tallinn 2001

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RIIGIKONTROLL

Annual Report 2000

Address of Auditor General



Dear Reader!

In front of you is the Annual Report of the State Audit Office for the year 2000 which presents a thorough survey of our activity and development, as well as our financial situation.

What was the central issue of the whole year?

The Estonian public continued the discussion about the notions of accountability and responsibility.

Unfortunately responsibility is frequently understood as an abstract inner feeling and people tend to forget that alongside with moral responsibility also institutional accountability exists. And this can materialise only through a specific system of public accountability, whereby the representatives of authorities are obliged to explain and justify their actions and decisions in front of other branches of power and the public.

The State Audit Office should be an inseparable part of such system of accounting procedures and verify the truthfulness of the claims of representatives of authorities. Or – if the necessary information is missing – the organisation should be able to create it by juxtaposing different sources.

In order to be useful and to be taken seriously this must be done in compliance with international auditing standards – and in the year 2000 we made remarkable progress towards meeting the relevant requirements.

It should be pointed out that the Government have started to build a system of internal audit which is a part of the set of accounting procedures. A minimum legal framework has been created and a number of positions have been filled with people. Yet the linkage of internal audit to responsibility and transparency needs further analysis.

The State Audit Office considers it as its obligation to give every support to the system of internal audit and we hope that the internal auditors will become partners for our office in cooperation and optimum labour division with whom an audit environment suitable for Estonia can be created. However, this system and cooperation do not arise automatically, but demand careful planning of the budget and reporting system, and also of the wider administrative system.

In 2000 we started the building of external audit proceeding from the principle of three columns:

- The task of financial audit is annually to assess the truthfulness of statements made by the Government through financial reports, thereby verifying whether correct accounting of the funds and other resources of the public

sector has been conducted and whether the means have been accumulated and spent in conformity with laws and other legislation concerning financial administration. At the same time financial audits help to increase the efficiency of necessary control systems.

- The goal of audits of operational risks is in-depth and preventive analysis of such systems where shortcomings may lead to mismanagement, malpractice, corruption and fraud.
- The aim of performance audits is assessment of whether the public resource is used for fulfilment of objectives of the state in an economical, efficient and effective manner (in other words – how to spend less to create possibly greater value in a cost effective way). The State Audit Office considers it rational to assess the final impact of results and action policies only when there is sufficient information about the nature of the problem or social issue that has initiated the development of a given action policy, also information about the objectives of the policy and its envisaged impact, resources used, etc. Therefore we frequently prioritise auditing of control and information systems that support the creation of just this type of information.

On the basis of this logic we developed several new angles of approach in the year 2000 which might have been regarded with a degree of apprehension by our auditees and our customers. I hope that the present Annual Report helps to fill in this gap and improve our communication. It is also my firm hope that the will and the skills of the government sector to explain its actions, to be understandable and accessible for the public will develop together with our ability to audit the actions, results and statements of the Government.

Let me extend my gratitude to all employees of the State Audit Office. Your willingness and expertise to tackle the problems that are important for the taxpayer and the Parliament and your ability to create new knowledge leading to solutions give the mission of the State Audit Office its real content.



Juhan Parts
Auditor General



The SAO is an independent state institution for execution of economic audits

1. Role and tasks of the State Audit Office

The State Audit Office as a constitutional institution

- The State Audit Office (SAO) was established by decision of the National Assembly (Maapäev) on December 27, 1918.
- On the basis of the State Audit Office Act adopted by the Supreme Council (Ülemnõukogu) on June 6, 1990 the SAO restarted its activity on November 1 of the same year.
- The SAO is headed by the Auditor General appointed by the Parliament (Riigikogu) upon proposal of the President of the Republic.

Mission

In the course of economic audits the SAO evaluates the performance of agencies of public administration (economy, efficiency, effectiveness) and legitimacy of their operations in order to make it possible for the Parliament and the Government to improve the performance of the state on the basis of recommendations and conclusions made. Through its activities the SAO must provide to the taxpayers assurance concerning prudent use of state assets.

Independence as guarantee of objectivity and impartiality

Independence of the SAO is guaranteed by its right stipulated in law to plan and organise its activities independently and by the five year term of office of the Auditor General. Thus, being independent of the executive power and political interests, the SAO is able to remain impartial in its activities and assessments and to base its audit decisions only on economic grounds.

Position of the SAO in the state

As the use of resources in the public sector is, alongside with legislation and internal control, largely based on trust, it is inevitable that public administration should be audited by an appropriate institution.

An audit is not an objective *per se*, but represents a necessary part of the management system by helping to avoid or mitigate deviations from legitimate, economic, efficient and effective government.

The SAO performs a significant role in the reporting chain between the Parliament and the Government of the Republic.

The Parliament who allocates to the Government the means for the implementation of its policies is responsible for effective use of resources of the public sector.

The Government is accountable to the Parliament for legitimate and effective use of resources of the public sector. Thus the Government must establish a system ensuring the achievement of objectives and regularity of activities.

The use of resources of the public sector requires the existence of a supreme auditing institution

The SAO informs the Parliament and the public on whether the Government has used the resources in accordance with the rules prescribed by the Parliament, whether the results have been achieved and whether an operational and reliable system has been created for their achievement. In other words, it is evaluated whether the state is operating economically, efficiently and effectively.

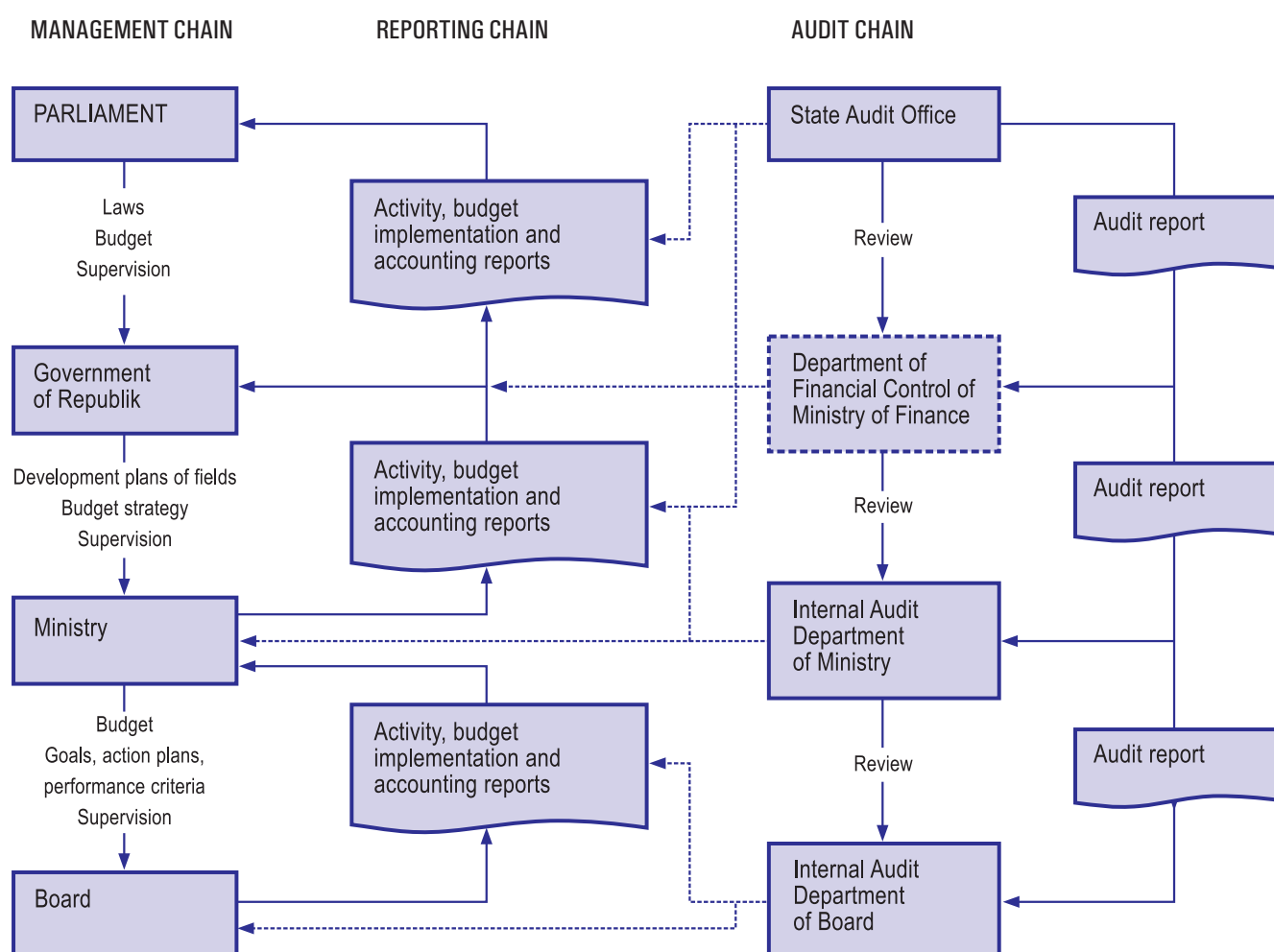
The three criteria are measurable and show the performance of the state. Establishment of any criteria is meaningful only on the condition of existence of objective feedback. Provision of such feedback to the Parliament is the task of the SAO as an external audit entity.

At the same time it is inherent to the SAO that the institution itself does not execute power or adopt decisions. Thus the task of the SAO is to assist the decision makers.

The following chart exemplifies the principles of operation and mutual connections of three state administration circuits. Although this chart depicts an ideal model which has not been implemented in Estonia as a whole, movement in this direction is nevertheless under way.

The State Audit Office provides to the Parliament objective feedback on economic expedience of activities of the state

Place of the State Audit Office in the management and audit system



Stable development
of the state presumes
auditing of the public
sector

The State Audit Office
increasingly focusses on
its consultative role

The principal constitu-
tional function of the
State Audit Office is
execution of economic
audit

Tasks of the SAO

Legitimate and efficient use of resources of the public sector is one of the central premises guaranteeing correct handling of finances and effectiveness of decisions of competent authorities.

In order to achieve this goal it is necessary that the state should have a supreme audit institution whose independence is guaranteed by law.

For stable development of the state it is, *inter alia*, necessary to pursue specific aims of auditing, namely adequate and effective use of resources of the public sector, development of good financial management, correspondence of administrative activity to requirements and information of the institutions and the public through objective reports.

As a modern state, expanding its activity to social and economic sectors, extends the limits of conventional financial management, the SAO has instead of documentary audit and accounting audits concentrated on the analysis of functions of administrative entities and evaluation of fulfilment of these functions, whereas instead of auditing of specific operations the focus is on the analysis of programmes. Instead of concentrating on subsequent checking the audits are future-oriented and accompany or even precede the activity.

During last years the SAO has not limited itself to investigation whether resources of the public sector are used prudently and purposefully, but has been paying increasing attention to whether the entities who use the resources are fulfilling their principal tasks. At the same time this has meant closer cooperation with the entities audited and, naturally, continual enhancement of the consultative function.

Economic audit

Alongside with political and legislative control increasing importance is being acquired by economic audit with its specific criteria and functions.

The development of audit systems is governed by a simple principle: internal control can only work efficiently when there is sufficient external control. This means that the government sector is considerably more active and successful in creation of such systems when pressure is exerted from outside - by the Parliament, the public or the European Union. It is these centres of influence that the SAO must inform, reflecting how successful the Government has been in implementation of internal control and internal audit, simultaneously offering assistance to the ministers and other government institutions in improvement of systems.

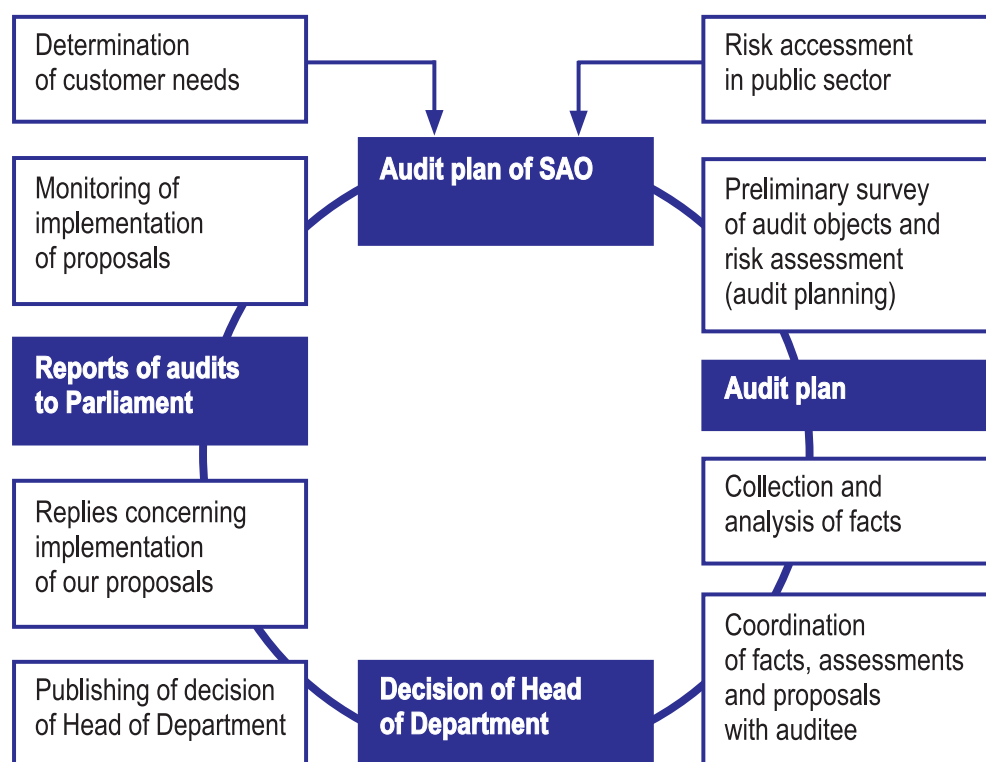
Another aim of external audit is rationalisation of governmental decisions through feedback and consultancy conducted on the basis of the audits.

External economic audit investigates the economy of operations of the state, doing this at its own initiative and determining the object and extent of audit independently.

External audit does not have a status of “a state trustee”, neither is it “a reserve of objective governance wisdom”, it is rather a specific form of rational administrative audit in a democratic state the tasks of which are determined and limited by the Constitution and other legislation.

External economic audit
is a form of
administrative audit

The main work of the SAO - i.e. auditing - is conducted as shown in the following chart.



The classic types of economic audit are performance audit and financial audit, these types are supplemented by operational activity risk audit. All these types have their specific focuses in the analysis of functioning of the state as a system.

The SAO conducts all three audit types and in order to achieve best quality and most efficient operation three specialised audit departments have been established: the Performance Audit Department, the Financial Audit Department and the Department of Audit of Operational Risks.

The three following chapters give a more detailed overview of the above types of audits, also a survey of the activity of the audit departments in the year 2000 is presented.

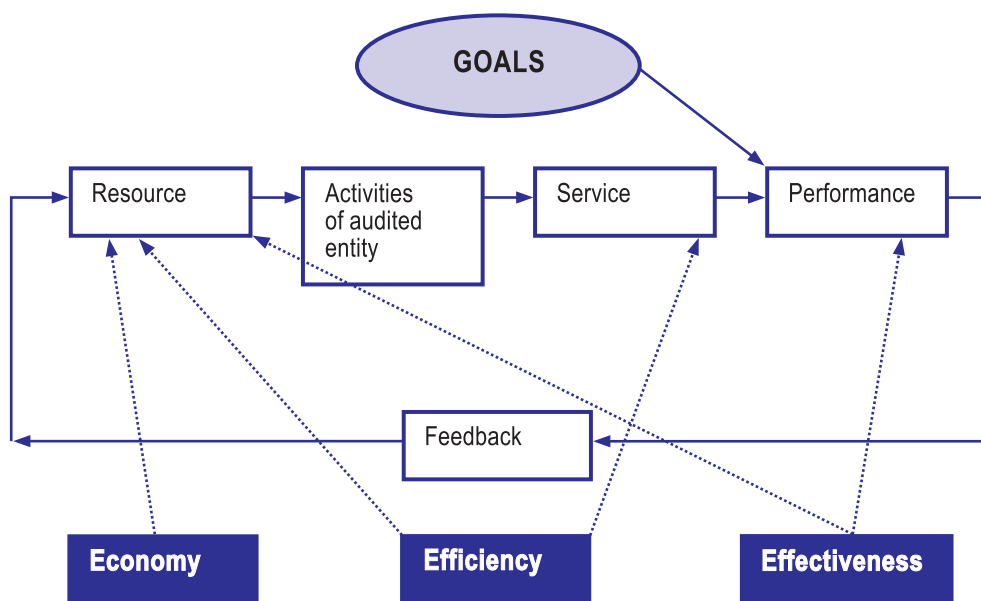


2. Performance Audit Department

The Performance Audit Department (PAD) conducts performance audits of the public sector in order to contribute to the development of result-based management and sound management practices in the public sector and to economical, efficient and effective use of resources applied in implementation of public administration functions.

2.1. The nature of performance audit

The goal of a performance audit is to provide to the Parliament and thereby also to the taxpayer assurance that public resources are used in accordance with regulations and in an effective manner. Thus a performance audit does not encompass only financial transactions, but the whole public administration, including intraorganisational and government systems as a whole. The performance audits of developed countries are focussed mainly on three aspects.



Three aspects of performance audit

- a) **Economy** of administrative activity is evaluated proceeding from sound administration principles, good practices and principles of management.
Thus it is established whether the audited entity has minimised its financial expenditure without compromising on quality;
- b) **Efficiency** of resource use depends on the added value created by the state through investment in the activity of the audited entity, also on whether the ratio between the resources spent on an activity and the result thereby achieved is optimal;
- c) **Effectiveness** of activity is evaluated by comparing the actual results of the audited entity with its goals, i.e. it is established whether the taxpayers' money is used **effectively**.

Spend less

Spend wisely

Spend effectively

The SAO has developed performance audit in cooperation with its international partners (primarily the Netherlands Court of Audit and the UK National Audit Office). We are adjusting best available international experience in the field to Estonian circumstances, taking into account the particularities of the government system of Estonia, the size of the country and possibilities and means of the SAO.

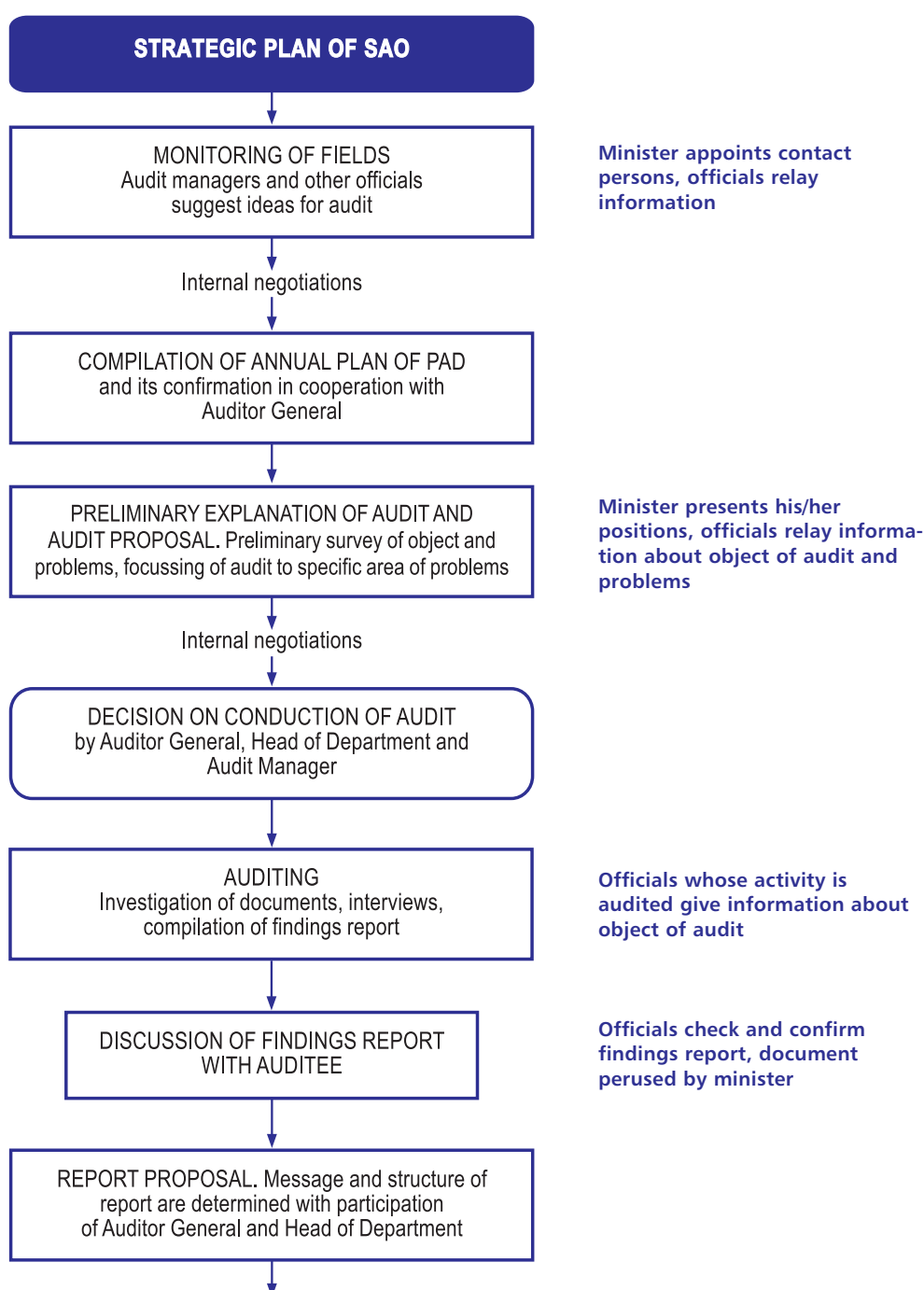
2.2. Conduction of performance audit

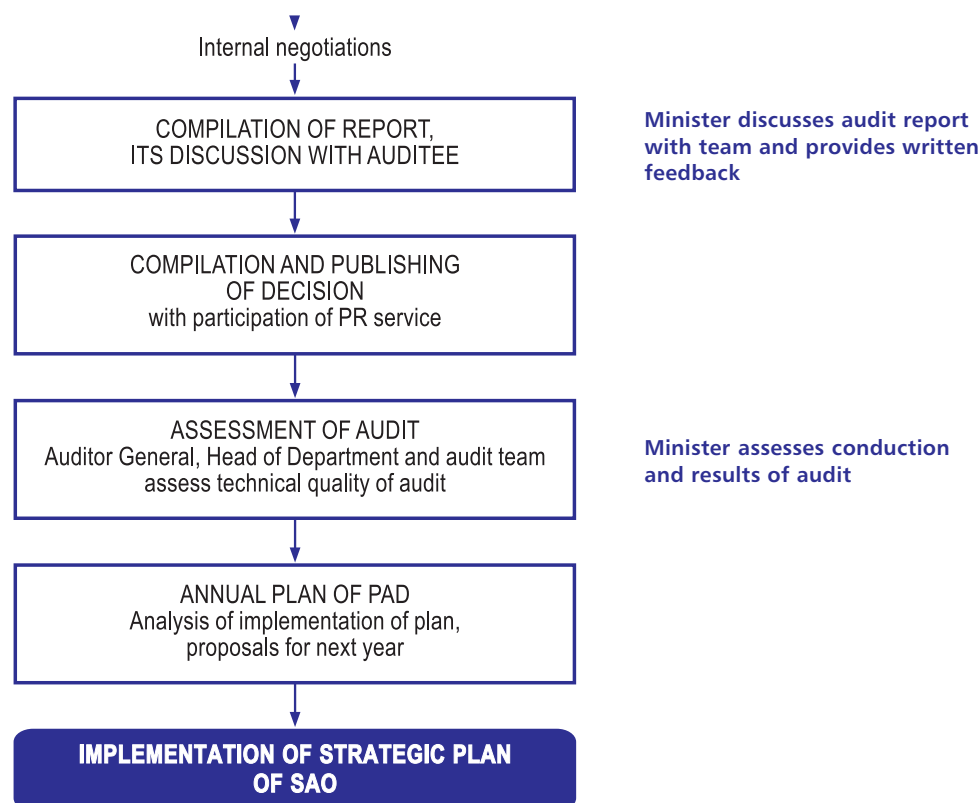
As the SAO conducts performance audits not only as an independent auditor, but largely also as a consultant, it is important to maintain close contacts and information exchange with the audited entity and particularly with the party responsible for the activities of the audited entity, i.e. the respective minister.

Process of conduction of performance audit

Role of auditee

Principal process of
performance audit





PAD devoted ample time to elaboration of the main process of performance audit. One of the most significant achievements in the field was the new system of audit quality assurance developed by the department:

- internal negotiations at different stages of the audit;
- coordination of evaluation criteria with the audited entity before commencement of the audit;
- involvement of experts in preparation of the findings report before its submission to the audited entity;
- discussion of the findings report with the audited entity;
- the right of the audited entity to submit its opinion and objections before the signing and publicising of the audit decision;
- request of feedback from the audited entity and the respective parliamentary committee;
- self-evaluation.

Thus our work is based on internationally recognised good auditing practices.

2.3. Audits in the year 2000

The department conducted 21 audits which on average makes one audit per one employee directly concerned with auditing. As a comparison it may be pointed out that in the performance audit departments of national audit offices of other countries the respective figure per employee is 0.5 audits annually. In the year 2000 the Auditor General signed 11 audit decisions.

The audits involved all ministries with the exception of the Ministry of Agriculture. In addition the operations of the State Chancellery and several county governments were analysed.

PAD also compiled the SAO opinion on the draft state budget of 2001.

The audit programme was launched so as to make it possible after a couple of years to give a generalised assessment of investment management, budgeting and planning of action policies, personnel planning and budgeting in the so-called power structures, development of IT in the public sector, administrative capacity of state regulators, implementation of result-based management principles and organisation of further training.

State financial management and budgeting

This topic was chosen for consideration primarily in order to improve the processing of the budget in the Parliament and the management of investments in the ministries. To achieve this aim possible dangers in the budgeting process were identified, it was also investigated whether the ministries had clear-cut criteria and principles for planning of their investments.

In addition the department gave recommendations for implementation of a zero-based budgeting system, for creation of a system of accurate and appropriate budgeting inputs, etc.

Personnel management

The aim of the personnel management audit conducted in the Headquarters of the Defence Forces and the Border Guard Administration was to establish whether large government organisations execute the planning of personnel and related costs in a systematic and purposeful manner. To answer this question it was necessary to determine whether the institutions had multifaceted information of their personnel, whether the training system was being developed and whether the criteria necessary for result-based management preconditional for purposeful planning were being elaborated.

IT audits

In the framework of the audit of effectiveness of IT development projects we mapped all IT development works started in the public sector in 1993-1999 and selected the more characteristic cases for closer study.

We started with two topics.

At first we selected two failed cases from among 350 started IT development projects in order to investigate the effectiveness of project management. The cases concerned the construction of IT systems for Pärnu Health Insurance Fund and Pärnu Hospital and Outpatients Clinic in the framework of the PHARE aid programme.

Next we selected fifteen most financed information systems. The analysis of the problems which had appeared during these development works made it possible to generalise the controversial issues and to make recommendations to the Government and the Parliament concerning improvement of IT management and supervision.

Prevention and detection of corruption - effectiveness of declaration of economic interest in prevention of corruption in the Republic of Estonia

Our aim was to establish, if the declarations of economic interest had become an effective means for detection of cases of corruption. We investigated the tasks of the legislative and the executive branch, organisation of collection and checking of declarations, methodological supervision thereof and analysis of effectiveness of the system.

Result-based management; generation of public statistics and its use in making management decisions

In the opinion of the SAO result-based management is one of the key issues of the public sector of Estonia. In order to survey the respective developments we used the example of the Railway Administration to analyse how the ministry organised and coordinated the work of the administration and whether it had created premises for successful result-based management. We also analysed the activity of the administration in creation necessary preconditions within the organisation.

As the making of management decisions presumes adequate information, we studied the cooperation of the statistics system with its component entities, we also analysed whether the Statistics Board was sufficiently independent and whether the development of the statistics system is carried out in an integral and regular manner.

Audit of training management

We used the example of the Ministry of Foreign Affairs to analyse whether the government institutions had created their own training system, taking into account the peculiarities of the organisation.

The training system and training activities of the Ministry of Foreign Affairs may be used to set an example for other state institutions, as it is one of the best such arrangements in the public sector. As a result of the PAD audit and in cooperation with the State Chancellery and managers of further training of state institutions, the principles of management of training in state institutions or good practices of organisation of training in Estonian public service were elaborated. The department finds it noteworthy that the cooperation with the audited entity in the framework of the audit resulted in development of a framework document about uniform training principles of state institutions from which all public sector institutions are able to benefit.

The department made its first steps to start cooperation with its main customer - the parliamentary committees - a practice which is normal in the rest of the world. We were able to obtain fruitful cooperation experience in discussions of audit results with the parliamentary committees of finance, economy, rural life, national defence and social affairs.

We are happy to be able to point out that despite the novelty of this type of audit for us, most of our audits have been highly appraised, the evaluations given have been found to be accurate and fair, and recommendations made have been deemed as realistic for implementation. In general the implementation of our recommendations has started already during the audit.

We have started to develop close cooperation with our main customer – the Parliament

¹ International Organisation of Supreme Audit Institutions.

² European Organisation of Supreme Audit Institutions.

2.4. Our staff

The department has 25 positions of which 23 are filled: 15 audit specialists, 5 audit managers, one manager's assistant, secretary and the Head of Department.

In comparison with the supreme audit institutions of other countries, the employees of our department are relatively young and their average age is 37.5 years. Our team is well-educated and open to innovation. The department employs one Candidate of Economic Sciences, one Master and 9 Master's students.

As performance audits presume an extremely versatile preparation, the Estonian training institutions are not as yet able to cater for all the needs. Therefore we are extremely satisfied with solid support from our good cooperation partners – the Netherlands management consultancy company MDF and the Netherlands Court of Audit, also from the UK National Audit Office. For us these institutions have organised lectures on the philosophy of auditing and performance audit, as well as carried out management training.

We have pleasant cooperation relationships with PricewaterhouseCoopers whose instructors have shared their experience on the methods of internal control and preparation of audit reports. Our employees also educated themselves in the field of quality and project management and financial legislation of the European Union. All in all our staff took part in 31 training courses.

Our employees have given lectures to higher government officials and managers on topics concerning internal audit, internal control and result-based management, they have also lectured on principles and goals of performance audit. Our cooperation with county governors has turned out to be successful and we intend to develop it further.

We participated successfully in the environment protection audit of INTOSAI¹ and the regional environment protection audit of EUROSAI², in the financial audit work team of the delegation of negotiations with the European Union, in the work team of review of financing applications of IT development projects and the work team of elaboration of training principles of state institutions. We also participated in the privatisation work team of INTOSAI.

In view of the fact that the Performance Audit Department was established in the year 2000 I consider the creation of an operable organisation and a good team to be the greatest success. Alongside with it we have based our activity on a common development strategy and standardised services.



A blue ink handwritten signature, appearing to be 'Raivo Linnas', written over a long, thin horizontal line.

Raivo Linnas
Head of Department



3. Financial Audit Department

The task of the Financial Audit Department (FAD) is, by carrying out financial audits, to provide the public and the Parliament assurance that financial accounts of the public sector truly and fairly reflect its financial situation and the processes occurring in the state.

3.1. The nature of financial audit

The purpose of a financial audit is to give assessment to true and fair reflection of economic activity of an institution in its financial report

The goal of a financial audit is to give assessment to true and fair reflection of economic activity of an institution in its financial report proceeding from the Accounting Act, the decrees of the Minister of Finance and internationally recognised principles of financial accounting and reporting. It is to be investigated whether the economic transactions are reflected appropriately with respect to their content and arithmetically accurately, whether the assets are actually owned by the institutions and the debts constitute their liabilities, whether the assets and liabilities are evaluated as required, whether the revenues and costs are reflected on accrual basis, in the right period and full extent, whether the data presented in the accounting reports are grouped and reflected as required, etc.

As a result of a financial audit an assessment is given to correspondence of the balance sheet, the profit and loss statement and its appendices to the aforementioned requirements. This presumes an integrated approach to economic activity of the whole institution. A financial audit makes it possible to obtain an integrated overview of economic activity of the institution and the related problems, therefore it provides good grounds for the audit of correspondence of activities of the institution to law. During a financial audit a particularly great emphasis is laid on the requirement that the reports be compiled on accrual basis (differently from the previous practice of analysis of implementation of the budget on cash basis) in order to obtain a clear picture of the actual financial situation of the institution.

In the course of a financial audit the use of assets is evaluated by analysing whether the owner and user of the assets is the same person, whether the assets are used purposefully (i.e. are not leased without charging rent or left to stand unused), recommendations are made to increase the efficiency of financial management and internal control of the audited institution.

3.2. Stages of development of financial audit

The main task of the Financial Audit Department of the SAO is to submit to the Parliament its opinion on the report on implementation of the state budget. For this purpose FAD annually audits the financial reports of the ministries on the basis of which the report on implementation of the state budget is compiled.

In its financial audit the SAO may present evaluations of various aspects of economic activity. The most important of these aspects are as follows:

- whether all transactions, assets and liabilities are correctly recorded in the accounting;
- whether all transactions have been legal;
- whether the internal control and financial management of the audited entity are correct and reliable;
- whether the information presented by the auditee about expenditure made on services, fulfilment of functions, etc. is correct;
- whether the information about the results presented by the auditee is accurate.

The aspects evaluated in the course of financial audits depend, on the one hand, on the information contained in the reports and, on the other hand, on the auditor's focus, i.e. the information the correctness of which the auditor is to evaluate.

As the management of the audited institution and the auditors are able to identify deviations from the norm primarily on the basis of reliable accounting, the SAO, in the first audit stage, finds it crucial to confirm the accuracy of calculations. It is only after this that general evaluations about e.g. legality of transactions, accuracy of cost information, etc. can be made.

This, however, does not mean that accuracy of other information is not assessed during this stage, it is rather that one of the more important topics is concentrated on in the framework of one aspect and a general assessment is not given.

The following chart figuratively characterises the development of the evaluation given by a financial audit:

Effectiveness of action					
Economy and effectiveness of action					
Quality of information about results					
Quality of information about costs					
Level of internal control and financial management					
Legality of transactions					
Accuracy of annual accounting report					

Financial audit, helping to implement accurate and full financial reporting, also creates premises for auditing economy, efficiency and effectiveness of activities

Stages of development of financial audit

The accounting of the state has common features with accounting in large business organisations

3.3. Conduction of financial audit

FAD proceeds from the principle that the accounting of the state has several common features with accounting in large business organisations where uniform accounting principles are defined for each unit and a consolidated annual report yields a picture of a conglomeration of enterprises as a whole.

During an audit of an annual report an assessment is given of true and fair reflection of the economic activity of the audited (public sector) institution in its financial reports proceeding from good accounting practices.

An assessment of financial reports depends on the sum total of errors and type of errors. Possible assessments are as follows:

- positive assessment - the annual report truly and fairly reflects the economic activity of the institution in its essential part;
- assessment with reservations - excepting the listed circumstances (short description and explanation) the annual report truly and fairly reflects the economic activity of the institution in its essential part;
- negative assessment - due to substantial errors (short description and explanation) the report does not reflect the economic activity of the institution truly and fairly;
- assessment is withheld - assessment may be partially or totally withheld, e.g. upon lack of sufficient evidence (reasons to be given).
- Without giving an assessment the following important observations made during the audit are stated:
 - observations on correspondence of the economic activity of the institution to legislation and regulations;
 - observations on improvement of financial management and the internal control system.
- The SAO lays emphasis on correspondence of financial reports of the public sector to certain qualitative requirements of which understandability, relevance, reliability and comparability are of primary importance.
- **Understandability** - an unconditional property of information presented in financial reports must be its direct understandability to the user.
- **Relevance** - information is relevant, if it helps the users who make economic decisions to evaluate past, present or future events. Relevance is ensured by materiality of information.
- **Reliability** - information is reliable when it is free of substantial errors and presents fully the facts it is designated to present or the facts the presentation of which may reasonably be presumed.
- **Comparability** - the financial reports of an accounting period must be comparable with the reports of previous periods and with other analogous reports.

3.4. Audits in the year 2000

The department conducted 15 audits which makes 1.2 audits per one employee directly concerned with auditing. In the year 2000 the Auditor General signed 14 audit decisions.

The primary goal of FAD was to elaborate the methodology of financial audit proceeding from the INTOSAI audit standards regulating the auditing of the public sector, international audit standards, good practices of international audit companies and the needs of the SAO. It was also necessary to clarify the capacity of the department, i.e. the number of audits we are able to conduct with our existing resources. On the basis of previous experience and experience acquired during work a specific methodological basis of the department was developed, including audit procedures for public sector institutions which have permanent value, are applicable in subsequent audits and give a good starting position for future financial audits on the use of resources of the European Union.

The principal aim of the department was to provide an opinion on the report on implementation of the state budget compiled by the Ministry of Finance. To this aim 15 voluminous audits of accounting of state institutions were conducted from March to August. The audits covered all ministries, the Maritime Administration, the Road Administration and the State Chancellery. In financial expression these audits encompassed 13.5 billion kroons or 44% of the volume of consolidated balance of state institutions. The selection of ministries as central institutions was conditioned by the circumstance that in central institutions the problems of the whole administrative area find clearest and most concentrated expression and through auditing of the unit coordinating an administrative area our recommendations reach the institutions of the given area. As a result of the audits an overview was obtained about current situation and focal problems of the state's accounting system. Information gathered provided a basis for compilation of the report on use and preservation of state assets submitted to the Parliament.

In the year 2000 FAD presented to the Ministry of Finance a number of recommendations for improvement of organisation of accounting of which several were taken into account in the manual of compilation of annual report. The most significant of these can be seen in the right given to state institutions to make corrections in the reporting of past periods (balance sheet and profit and loss statement) in cases where the errors have been material.

In September-December interim audits of accounting reports of 2000 were started in four ministries, the Social Insurance Board, three regional pension offices, in the Central Health Insurance Fund and five regional health insurance funds. The aim was to specify problematic areas and our focuses, thereby simplifying the work during the final audits.

As a result of the interim audits of 2000 it may be concluded that the ministries have taken recommendations made during the audits of the annual reports of 1999 seriously and started to implement them in organisation of accounting and report-

The main aim of the department was compilation of an opinion on the report on implementation of the state budget

ing. In general it was possible to achieve good working relationship with the auditees and to convince the managements of institutions in the significance of correct accounting for enhancement of administrative capacity of the state.

The conclusions made on the basis of financial audits of economic activity of state institutions were based on specific facts and were reflected in the report on use and preservation of state assets of 1999.

Looking back on the year 2000 we may be satisfied with the following achievements:

- We have created a team of auditors who know and apply uniform principles based on international standards in planning and conduction of financial audits.
- We started with auditing of accounting reports of state institutions. We find that it is a great step forward, as differently from the private sector the accounting reports of state institutions have not been audited in the past. Provision of an independent opinion of financial accounting helps to ensure quality of reporting and increase its reliability. As work in this field is expected to continue for years, it is positive that the audited institutions were ready for cooperation.
- In giving an opinion on the report on implementation of the budget of 1999 we had an opportunity to draw attention to problems concerning financial reporting of the public sector. This received wider public attention. We hope that in elaboration/amendment of respective legislation our cooperation partners take into account our recommendations for improvement of the quality of the financial and accounting framework.

³ On May 22, 2000 Chairperson of the Accounting Board (Raamatupidamise Toimkond) of the Republic of Estonia Rita Ilisson set up a permanent supervisory committee - the College of Financial Accounting - with the task to solve problems concerning guidance and supervision of reporting of accountable entities. In the year 2000 the college discussed the draft Consolidated Reporting Act and recommendations for amendment of the Accounting Act and the Commercial Code.

⁴ SPP is a programme dealing with creation of a legal and organisational framework for government aid originating from the pre-accession funds of the EU. The aim of the work team is to prepare a decree of the Government of the Republic to regulate proper application for and purposeful use of the above-mentioned government aid (primarily ISPA and SAPARD). The areas discussed include the Competition Act, the draft Public Procurement Act, possible problems connected with expropriation and the draft state budget. Last year seven work team meetings were held.

3.5. Our staff

Provision of financial audit of the public sector as a relatively new service determined specific requirements as to the qualification of the staff. As specialists of respective specialist training are not educated in Estonia, we manned the department mainly with private sector auditors, chief accountants and financial managers and with people working in the SAO who had experience in financial work, had more extensive knowledge of public administration and mechanisms of operation of the state.

Concentration of specialists with similar qualifications, but different backgrounds in one department created favourable premises and fertile base for efficient work in provision of the new service. The primary skills were obtained during the year in trainings and through practical work. Several employees of our department have received training while working in reputable international auditing companies like PricewaterhouseCoopers, KPMG Estonia and Deloitte & Touche. This circumstance turned out to be an important factor in smooth commencement of work of the department and its management.

FAD can be characterised by the following parameters: average age at the end of the year was 38 years, financial work experience of employees was 17 years and time of work in the SAO was 2 years. The department employed 14 people.

The training plans for the year proceeded from the goal to create a team of auditors who would apply the principles of international auditing standards in planning and conduction of financial audits. After exhaustive clarification of training needs we selected as training instructors of the department the well-known trainers from PricewaterhouseCoopers Merike Rabi and Leon Jankelevich who taught the methodology of audit planning, risk assessment, documentation and compilation of reports. The employees of the department also took the Self II assertiveness course. The training was also contributed to by the cooperation partners of the SAO from the Netherlands Court of Audit and Estonian training companies.

In the year 2000 the employees of our department shared their experience representing the SAO in the work of College of Financial Accounting³ and SPP⁴ (Special Preparatory Programme).



A stylized handwritten signature in blue ink, consisting of several loops and a long horizontal stroke.

Kaie Karniol
Head of Department



4. Department of Audit of Operational Risks

The goal of the Department of Audit of Operational Risks (DAOR) is, by carrying out audits, to provide to the Parliament and the public assurance that all operational risks material for the agencies of public administration, the inadequate administering of which may lead to corruption, professional crimes and illegal transactions with public assets, have been identified and administered.

4.1. The nature of audit of operational risks

In order to maximise the benefits for the state, the Department of Audit of Operational Risks concentrates its activity in the areas which are prone to illegal operations

An audit of operational risks investigates the management of such risks in internal control and the management process, the inadequate administering of which may lead to corruption, professional crimes, illegal transactions with and damage to public assets.

Investigating the management of such unmitigated risks in internal control and the management process which may lead to malpractice and mismanagement, DAOR seeks the answer to the question whether sufficient premises have been created in the public sector to preclude such danger. The department primarily focusses on auditing state subsidies and licences, public procurements and administration of state assets.

In the course of an audit it is established whether formalised control systems exist (if necessary, such are defined), it is also assessed whether the control systems are sufficient for mitigation of material risks proceeding from the following four criteria: clarity of goals, verification of information, existence of sanctions and publicising of information. It is tested whether the control system actually operates and it is investigated in how large volumes unpurposeful or wrong payments, transactions or operations have been performed.

4.2. Types of audit of operational risks

In the activity of DAOR the audits of subsidies (permits, licences), public procurements and *ad hoc* audits may be distinguished. The focal issues investigated are the following:

Audit of subsidies

- **Regulation.** Do legislative acts and internal regulations preclude unpurposeful use or mismanagement of subsidies? An assessment is given whether the subsidy of the auditee is sufficiently regulated, i.e. whether a specific target or target group has been determined for payment of the subsidy.
- **Internal control.** Does anybody audit the information submitted by the applicants for the subsidy (both upon submission and subsequently); is it determined to which extent the audit is carried out and what are the principles of auditing?

An assessment is given of the existence of internal control measures and their efficiency (can all operations be audited, are audit activities relevant and sufficient to avoid malpractice, mismanagement, etc.).

- **Sanctions.** Are there sanctions to be applied upon identification of mismanagement? An assessment is given whether possibilities and conditions for application of sanctions are defined. The assessment proceeds from the premise that the sanctions should ensure at least reimbursement of subsidies received on wrongful grounds.
- **Publicising of information.** Is information about receipt and recipients of the subsidy public? An assessment is given whether the information on conditions of receipt of the subsidy is equally available for all potential applicants; whether the process of granting the subsidy and recipients of the subsidy have been publicised.
- **Illegal (unpurposeful) payments.** Are subsidies paid out in correspondence with the defined aim and existing regulations? Illegal payments are identified and their proportion in the audit sample is determined.

Public procurement audit

- **Organisation of procurement.** Have public procurements been held in all cases provided in law? Cases when the procurements have not been held, whereas in accordance with law they should have been held, are identified. Identification of failure to hold a procurement is connected with budgeting, implementation of budget and cost accounting. An assessment of existence of control mechanisms is given, it is also assessed to which extent the cost accounting ensures identification of division of the procurement in parts.
- **Economically unsound or partial procurement.** Is it ensured that the criteria of evaluation of tenders and conditions of qualification of the tenderers are based on actual and analytically investigated needs? An assessment is given of soundness of the criteria presented in the tender documentation.
- **Publicising of conduction of procurement.** Is it ensured that all necessary information about the procurement is available for potential tenderers simultaneously and whether there is a sufficient time supply before the deadline? Has sufficient information about the public procurement been publicised in order to make control of the public over the transaction possible? An assessment is given of conduction of the procurement and publicising of its results.
- **Supervision of conclusion of contracts and their implementation.** Is it ensured that the procurement may be executed on the conditions set as a result of competitive tender (risks associated with conclusion of the principal contract and auxiliary contracts)? An assessment is given to conclusion and implementation of contracts.

- **Application of sanctions.** Is it possible to apply sanctions, if the procurement is not held or is held inadequately? An assessment is given of existence of sanctions in the contracts and their application upon inadequate fulfilment of the contracts.

***Ad hoc* audit**

Ad hoc audits are carried out in order to assess mismanagement of public funds or other breach of legislation detected unexpectedly. Such audits are conducted with the following purposes:

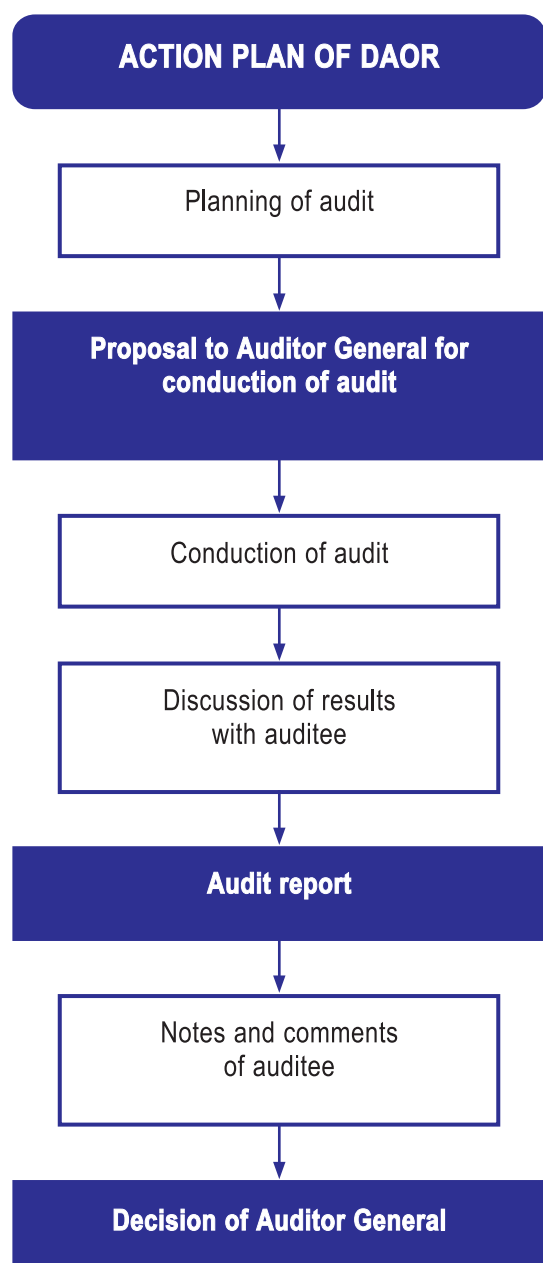
- to mitigate future risks in the case of analogous mismanagement and breach of legislation;
- to give an assessment of breach of legislation and, if necessary, submit materials to institutions of investigation;
- to publicise the situation or transactions and events that have occurred.

In the course of an *ad hoc* audit the transactions and events are ordered chronologically and/or the situation as of a certain moment is recorded.

The focal issues of specific *ad hoc* audits are determined in the audit recommendations.

4.3. Conduction of audit of operational risks

The process of conduction of the audit and its stages are depicted in the following chart.



Principal process of audit
of operational risks

4.4. Audits in the year 2000

In the year 2000 the department conducted a total of 20 audits, the compilation of 4 audits was transferred to the year 2001.

In its first year of activity the department concentrated on evaluation of legality in different areas, including the use of state budget allocations, administration of state assets and conduction of transactions with assets. The following areas/problems audited characterise our activity in the year 2000:

Legality of use of state budget assignments allocated for a specific purpose

The legality of use of resources allocated from the state budget to catering expenses and European integration, accounting and reflection of costs in reporting was audited. An assessment was given of sufficiency and efficiency of internal control mechanisms. In audit materials recommendations for review and amendment of relevant legislation and for improvement of internal control measures were made.

Accounting of state assets and legality of transactions with assets

In the course of these audits accuracy of asset accounting (incl. its reflection in the state assets register), transactions with state assets and writing off of assets was audited. Specific recommendations for elimination of faults were made to the audited institutions and superior institutions were informed of audit results.

Fulfilment of legislation regulating public procurements

Organisation of public procurements in several legal persons in public law and state institutions was audited. In several cases failure to hold a public procurement and division of procurements into parts was detected. In the audit materials recommendations were made for application of internal control measures to ensure application of proper procurement procedures in future.

4.5. Our staff

Of the 23 positions of the department 16 were filled at the end of the year: the Head of Department, 4 audit managers, 10 audit specialists and assistant of the Head of Department. The average age of employees was 40.9 years. The employees of our department have good education and preparation and are receptive to innovations, 80% of employees have remarkable experience in public service and have worked in the SAO for over 5 years.

Our employee development in the year 2000 concentrated on specialist further training. For instance, all employees of the department passed a two-part course held by PricewaterhouseCoopers:

- “Audit evidence materials, their testing and audit documentation” and
- “Audit planning, audit project management and compilation of reports”.

Our employees also participated in the trainings “Process management, description, analysis and improvement of organisation processes” and in the seminar on EU financial legislation “EU financial regulations and European way of financial management”. New knowledge was also gathered through several management training events.

We were greatly helped by our cooperation partners from the Netherlands who informed us about the philosophy of auditing and organised specialist trainings. With participation of our colleagues from the Netherlands preparation and conduction of a pilot audit on transport subsidies was started. All in all, the employees of the department participated in 23 different training events.



A stylized handwritten signature in blue ink, consisting of a large, sweeping 'J' followed by a series of loops and a final horizontal stroke.

Jüri Kõrge
Acting Head of
Department



5. Development of the organisation of the SAO in the year 2000

For the SAO the year 2000 may be called the year of development activities, as a remarkable part of our resource - in terms of both time and money - went on the implementation of the development projects determined in the strategic development plan of the SAO. The focal role and responsibility in the implementation of these projects rested with the services⁵ who managed with their tasks successfully.

We had a useful opportunity to involve foreign experts in our development activity, namely the auditors of the Netherlands Court of Audit and the Netherlands management consultants who advised us in the framework of a cooperation programme⁶ initiated by the Auditor General and financed by the Government of the Netherlands. Already at present we may assert that this cooperation has benefited us to a greater extent than by its mere financial parameters. Alongside with useful knowledge and guidance received we have been able to expand our understanding of modern European management and auditing practices and in our minds we have developed a living image of a well-performing organisation - an institution which we are striving to build.

The following description is a short, but hopefully exhaustive survey of our principal activities and achievements in the year 2000.

The development projects have been divided into five areas: management, personnel development, development of auditing and auditing methods, administrative activity and communication and foreign relations of the SAO.

5.1. Management

From the point of view of efficient operation of an organisation it can be said that everything starts and ends with management. In other words, the ability of an organisation to develop and be successful must be ensured by the managers through apt targeting, adequate supervision and clear conveyance of sense of responsibility. Therefore our priority last year was to clarify the management levels and to guarantee a sufficient support system for effective management of the SAO.

⁵ The eight services, whose activities are integrated by the Director of the SAO who heads the so-called Support Services Department, can be viewed as the fourth department of the SAO. The main objective of the services is to ensure support to the Auditor General and the audit departments in fulfilment of their objectives and tasks in accordance with the Constitution. As of the end of 2000 the services employed 28 officials.

⁶ A two-year programme of the Netherlands Court of Audit financed by the state of the Netherlands, the management consultancy company MDF and the agency SENTER for the development of various areas of activity of the SAO.

⁷ See strategic development plan of the SAO for the years 2000–2003 on the homepage of the SAO at www.riigikontroll.ee.

Reorganisation of management of the SAO

The reorganisation of the management structure that started in the beginning of the year 2000 represents a signpost in the development of the SAO. Following the example of supreme audit institutions of other countries, a structural division based on types of audit was implemented, incorporating the departments of financial, performance and operational risk audit. This was an important step towards achievement of strategic aims of the SAO, more specific specialisation, better defined responsibility and improved teamwork. At the same time it gave better opportunities for planning, motivation and development of staff.

The managers of the new departments were selected from among the existing personnel by competition, whereas the employees were able to choose the audit type best suited with their experience and knowledge.

Through a three-month process people were transferred to new structures and tasks and audits under way were completed.

Alongside with the structural changes a management comprising the Auditor General, the Heads of Departments and the Director was formed for discussion of all central issues concerning the principal activity and development of the SAO. The main aim of this step was to apply good management practices and expand the circle of decision-makers over strategic issues, although, according to applicable legislation, the SAO is a monocratic organisation.

In order to provide to the Auditor General and the management assurance that the work of the SAO is efficient and ensures achievement of the aims, the position of an internal auditor was established in the beginning of the year.

The main task of the internal auditor is to develop the management culture and risk management through internal control and risk assessment, to make recommendations for improvement of internal control and to participate in the discussions on the development of the organisation. The internal auditor provides advice and consultancy for preparation of projects, regulations and rules.

Targeting of activities

In our reports we have frequently stated that one of the most serious problematic issues in the public sector is targeting of activities and resource use. We started with preparation of the strategic development plan of the SAO already in the end of 1999 and completed the process in the first half of the year 2000. Although the work resulted in a fairly voluminous development strategy until the year 2003⁷, we find that the final result is maybe even of lesser importance than the process itself, which incorporated all managers of the SAO and significant part of the staff. Several issues were clarified in discussions and this helped considerably to enhance the sense of identity of our employees and improve their understanding of the mission of the organisation.

New structural division
is a signpost in the devel-
opment of the State
Audit Office

Strategic development
plan of the State Audit
Office sets specific aims

Development of the
organisation of the SAO
in the year 2000

This development plan which gives a definite focus to the activities of the SAO during the next years prioritises the harmonisation of auditing practices with internationally recognised principles and standards used by the member states of EU and applied in the European Court of Auditors.

Management accounting

Management
accounting is a useful
means to improve
efficiency of
resource use

In the year 2000, in cooperation with the Netherlands consultants, we elaborated a management accounting system of the SAO in order to provide to the managers of the organisation adequate management information for decision-making, as well as strategic and current planning. The management accounting includes cost accounting and time accounting, yielding a detailed overview of distribution of costs between principal and accessory processes, distribution of time resource in the organisation, etc. It should also provide to the management assurance that finances are used in accordance with the approved budget.

Now we are at any one moment able to determine how much money has been spent on one or another internal service or audit project, how people have allocated their time and which projects or services they have been dealing with. This makes it possible remarkably to improve our resource use and gives a factual basis for evaluation of effectiveness of our work.

Mapping and optimisation of principal and accessory processes

Process manual gives an
overview of operation of
the organisation

Do all work processes of the SAO correspond to the goals of the organisation, are they understandable to people and oriented to high-quality result? This was a question which instigated us to map the principal and accessory processes of the organisation, to analyse and thereafter optimise them. The result of this work was a process manual which is a good tool for everybody and, particularly, for new employees, helping to obtain a better overview of operation of the organisation and various internal and external services. The manual is, naturally, a so-called live document constantly up-dated by process administrators, thus ensuring an accurate picture about who is performing which functions.

Work agreements
between the Auditor
General and department
managers implemented
as a new management
instrument make it
possible better to
distribute resources and
specify the expected
results

Work agreements between the Auditor General and department managers

In the end of the year 2000 we implemented a new management instrument - the Auditor General concluded work agreements with department managers. The aim of the step was to define and agree on the goals and activities of the next period, i.e. the year 2001, more precisely, to distribute the existing time and financial resources across the tasks and to define the expected results more clearly.

5.2. Personnel management

We are clearly aware that our main value is the people who make up the SAO, thus we pay great attention to the field of personnel management: to motivation and development of employees, creation of pleasant work environment and recruitment of qualified and professional staff.

Motivation of personnel

In spring 2000 we carried out first development interviews with employees of the support services. To this aim a definite procedure was developed and the employees received preliminary training.

Development
interviews improve
employee confidence
and motivation

The development interviews resulted in clear agreements between the managers and their subordinates concerning future aims. Such opportunity to give and receive systematic feedback on their performance significantly improved employee confidence and motivation. The objective set for the year 2001 was to conduct development interviews throughout the organisation.

Development of personnel

In connection with the initiation of the system of development interviews we elaborated an assessment system of employee training and development needs accompanied by relevant guidance materials. The training plan of the support services that was prepared enabled us to use the resources allocated for personnel development more economically and efficiently, as in the course of assessment of training needs it was possible to ascertain which measure was most expedient for enhancement of effectiveness of work of the given employee. Training as the most expensive solution is not always necessary and it is sufficient to introduce changes in the work environment, conditions, etc.

Already for years one of our priorities has been self-development and training both in Estonia and abroad. In the year 2000 employees of the SAO were actively engaged in professional self-development, participating in various trainings for a total of 1301 days. Most trainings concentrated on management, information technology and auditing.

Recruitment

Recruitment of personnel was fairly successful and many active, talented and experienced specialists were recruited. We mainly employed people in the audit departments, prioritising the need to involve people who would see their job as a challenge to increase the efficiency of the public sector, helping with their rational and open attitudes to create value for our customers, i.e. the auditees, and also for the Parliament and the Government.

We recruited a number of
active specialists who see
their job as a challenge
to increase the efficiency
of the public sector

We implemented a new official familiarisation programme which involves information of recruited employees of the development strategy, main processes, internal regulations, organisation culture and personnel management principles of the SAO. In addition, all new employees are interviewed by Auditor General who introduces his vision and expectations of the organisation and specific departments, the employee has an opportunity to ask questions interesting him or her in connection with the SAO. New employees are greatly helped by the interview conducted at the end of the test period and summary of the results of the test period.

5.3. Development of principal activity

Audit strategy
specifies audit products,
monitoring and selection
of auditees

In the year 2000 the SAO continued internal discussion over the content of its audit products, audit focus, principles of selection of auditees and monitoring, which took us to the so-called second round of strategic planning or development of our auditing strategy. In order to define the position of the SAO in the audit chain more accurately, the model of audit pyramid was employed (i.e. the external auditor proceeds from the work of internal auditors), the model was also promoted in the government sector.

The most important change in the audit methodology was resting the responsibility for methodological development on the audit departments. Thus the methodology is prepared by people who practically use it. Estonian-language literature in the field of auditing received substantial additions, as the Declaration of Lima⁸, INTOSAI standards and guidelines for implementation of INTOSAI standards in Europe were published in Estonian.

On the example of the Netherlands Court of Audit intermediate stages specifying the focus and message of audit were introduced in the audit processes of the Performance Audit Department and the Department of Audit of Operational Risks. These stages involve internal negotiations in the SAO involving, in addition to the audit work team, the Auditor General and the methodology, planning and reporting service. The planning and conduction of risk audits by the Department of Audit of Operational Risks was based on an approach used in the Netherlands with respect to malpractice and mismanagement. Such approach and application of respective criteria represent a conceptual change in comparison with the earlier approach.

5.4. Communication and international relations

The aspects of ulterior importance to the SAO are high quality of work and existence of professional auditors able to create added value for the auditees, but the organisation (as any other supreme audit institution in the world) has also another priority - namely its authority in the society.

⁸ A document on the principles of auditing the public sector adopted at the 9th Congress of INTOSAI in Lima in 1977.

In order to achieve this the SAO must be visible and active in the society. The taxpayer must know that the SAO exists and that its activity is directly connected to more economical and efficient use of public funds.

To attain visibility and activity in the society we lay great emphasis on media relationships and communication with our principal partners - the Parliament, the auditees, the Government, and also research institutions and partner organisations in Estonia and elsewhere.

External communication

An aim of the SAO is to be an open and transparent organisation and therefore we are actively engaged in explanation of the principles of our work and publicising of our results.

An aim of the SAO
is to be an open and
transparent organisation

Publicising of audit results is important for us because it is only thus that we can provide to the public assurance concerning prudent use of public resources.

Earlier practices of the SAO and experience of our foreign colleagues prove that the publication of audit results in the media helps to influence the auditee in the necessary direction.

In the case of material problems the SAO will not limit itself to the usual publication in the press and on the homepage, but the reports and audit decisions of the Heads of Departments are sent to parliamentary committees and the Government of the Republic.

In the year 2000 21 more important audit reports, audit decisions or analyses of the Heads of Departments were sent to the parliamentary committees.

Last year the Estonian media channels actively reflected the work of the SAO: printed media printed 120 articles or news items about our activity or audit results. The journalists submitted to the SAO 140 information queries, TV covered audit results on 13 occasions and on 7 occasions employees of the SAO participated in radio broadcasts. The information agencies published about 140 news items concerning the activity of the SAO during the year.

In the year 2000 the main topic in the media connected with the SAO concerned the principles of financial management of the state, including application of result-based management and sound practices of economic management of state assets. Another focal topic was whether the state fulfils its tasks in accordance with generally recognised principles of public administration.

Greatest and liveliest media attention was devoted to one of the main reports of the SAO - the report on use and preservation of state assets in 1999. The report was published in print and publicised on the SAO homepage, but in order to receive wider public attention also a press conference for representatives of the main media channels was organised. The influential circle of participants of the press event

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organisation of the SAO
in the year 2000

guaranteed wider than usual repercussions to the year's work of the SAO both in the media and among politicians.

Interest in the results of the work of the SAO is also testified by the large number of information queries received by the PR service and the frequent visits to the homepage of the SAO.

Thus, as a sign of the Internet era, the homepage of the SAO has become a remarkable aid in communication between the public and the organisation.

Internal communication

The rapidly growing
needs of the developing
organisation have condi-
tioned prioritisation of
development of our
information and commu-
nication facilities

The rapidly growing needs of the developing organisation and the new opportunities offered by IT have conditioned prioritisation of development of our information and communication facilities.

In 2000 the SAO opened its intranet to link the information resources of the organisation into one whole and make it easily accessible to all employees. The intranet which started from relaying of internal news and the database of media monitoring had by the end of the year become a daily tool for all employees of the SAO. Now the intranet carries the database of internal regulatory documents, the employee database, the audit materials' database, the virtual library of the SAO, a chat column and also a humorous picture gallery of photographs taken at social events. And, of course, the whole system was equipped with handy and powerful search engines. The intranet which was created as an open system thus makes it possible to append further components necessary for development of the principal activity of the organisation and other areas.

We may be proud to have succeeded in carrying out this complex and voluminous project with our own forces which enabled us to save considerable resources. Most employees were involved in development and launching of the intranet, project management and direct implementation was conducted by the PR service and IT service.

Information centre

To support audit
activities the service of
answering information
queries became to be
offered in a more
professional way

Also another development project in the field of information was launched in 2000: refashioning of the library of the SAO and its development into a modern information centre. The SAO employed a trained and experienced information employee under whose guidance large-scale development activities were commenced. As the first step the need for information of employees was mapped and the data was used to develop the new services of the information centre. To support audit activities the service of answering information queries became to be offered in a more expedient and professional way, keyword indexing of the information centre resources and development of the virtual intranet information centre of the SAO was started. The latter primarily means that as of now all employees of the SAO can use the information centre services from their own PC without leav-

ing their chair. At their disposal is also a web guide continually subsuming new web links, accesses to databases and other information bases which satisfy the need of the auditors for professional and specialist information.

The information centre was developed in cooperation with several Estonian libraries and information centres, the information centres of the National Audit Office of Denmark and the Netherlands Court of Audit. A visit of our project team to the information centre of the National Audit Office of Denmark gave a thorough picture and positive example of the services and organisation of work of a modern information centre with many years of experience.

In the framework of the Netherlands cooperation project started in 1999 the information centre was supplemented by numerous modern information carriers and databases in the fields of accounting, auditing, economy and statistics.

Social events

As in the previous years, our active team found time for excursions and other social events in the year 2000. The events include summer camps, ski and sledge outings and the Christmas party, a trip to Paldiski and many sports events. Basketball has traditionally been one of the favourites of our staff. As a result of regular trainings we have acquired a fairly skilful mixed team.

On November 1 we celebrated an outstanding landmark - the 10th anniversary of re-establishment of the SAO. Former employees of the SAO were also invited. In his address the Auditor General reviewed the path from the early years to this day and gave an overview of immediate and more distant plans.

Leisure time spent
together joins the team

International relations of the SAO

Three directions in the international relations of the SAO are to be pointed out: international organisations of supreme audit institutions, the European Union and cooperation with the Baltic and Nordic states.

Through committees and work teams we participated in the work of the world organisation of supreme audit institutions INTOSAI and its regional association EUROSAI⁹ (privatisation and environment protection audit work teams of INTOSAI, regional environment protection audit work team of EUROSAI, etc.). The Auditor General was a member of the Board¹⁰ of EUROSAI, discussing and deciding issues concerning cooperation and training of the members of the organisation and other matters in the competence of the Board.

Ensuring of representa-
tion in international
organisations of supreme
audit institutions

⁹ European Organisation of Supreme Audit Institutions was established in 1989. EUROSAI unites the state audit institutions of the European countries and develops their cooperation. Estonian SAO is a member of EUROSAI since 1993.

¹⁰ Estonian Auditor General is a member of the Board of EUROSAI since 1996. Beside him the Board includes the heads of supreme audit institutions of France, the Czech Republic, Denmark, Slovenia, Russia, Spain and the United Kingdom.

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organisation of the SAO
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Cooperation with the
states of Central and East
Europe and the European
Court of Auditors

The SAO has its role in the relations of Estonia with the European Union. This is expressed through its activities in the framework of the cooperation programme of supreme audit institutions of Central and East Europe and the European Court of Auditors¹¹. The activities extending already over many years include joint work of the teams of audit institutions of candidate states and the European Court of Auditors, and meetings of liaison officers and Auditors General, where directions for development proceeding from the need of integration are elaborated, internationally recognised auditing standards and experience in following best auditing practices are exchanged and recommendations for enhancing the effectiveness of operation of audit institutions are prepared. In 2000 the SAO of Estonia and the Slovenian Court of Audit headed a work team whose task was to monitor the implementation of recommendations of the previous meeting of the heads of the above institutions in Prague and to submit a report at the new meeting held in Sophia in the end of last year.

Cooperation with
supreme audit institu-
tions of neighbouring
states

The tradition of cooperation between the Nordic and the Baltic countries¹² started years ago. Before the year 2000 joint seminars of Lithuania, Latvia and Estonia and the annual meetings where Nordic cooperation was planned were held separately. Since 2000, the audit institutions of the seven countries are holding regular meetings in different states. At the seminar held in May in Estonia our Baltic colleagues and experts from Sweden, Finland and SIGMA¹³ discussed the central issues concerning audit activities, personnel development and communication with parliaments. The aim of this joint activity was to use the Nordic experience in development of audit methodology and to receive training in auditing of use of EU resources and other aid in accession preparations.

¹¹ Annual meetings of heads of supreme audit institutions of Central and Eastern Europe and the European Court of Auditors take place since 1996. Later Cyprus and Malta have joined the cooperation. The aim of the meetings is to find solutions to common problems arising in preparation for accession to the EU, information exchange, development of ability for cooperation in auditing, etc.

¹² The cooperation of the SAOs of the Baltic states started on October 14, 1994 when the three Auditors General concluded an agreement of cooperation in economic auditing.

¹³ Support for Improvement in Governannce and Management in Central and East European Countries.

5.5. Administrative activity

Information technology

In the field of information technology we made considerable progress towards user-friendliness and more efficient use of IT possibilities during last year.

We created a user support function that makes it possible to provide fast and efficient internal help to everybody with IT problems or questions. We decided to use our own capacities to build several IT systems the most remarkable of which is our intranet. The whole IT environment stabilised and this is particularly significant in view of the fact that most work in the SAO is done with computers.

Administration of the building

In order to improve work environment a big step was taken last year and a new building was bought for the SAO. In August work in the new building started. Preparations for acquisition of the new building started in spring 1999 when, on the basis of an expert evaluation of the construction, we recommended to the Government to sell the former building which had substantial renovation costs and was too large for the needs of the SAO (3700 m²) and to purchase a smaller, but better maintained building. The idea was supported by calculations according to which the change of the building would not require additional financing from the state budget. After time-consuming search for a suitable building the choice was made in favour of the office building at 11A Narva Road.

On March 15, 2000 the SAO acquired the office building owned by the Compensation Fund and the former Maapank which had been refurbished five years ago and which well suited our needs.

The change of building was completed in December when we managed to sell our old building. As a result of an auction bid this was acquired by Krediidipank for 27 million kroons.

Through the exchange of our office building the state earned a net profit of about 4 million kroons and thus we can assess the whole transaction as profitable.

The change of the office
building gave employees
modern and comfortable
working conditions

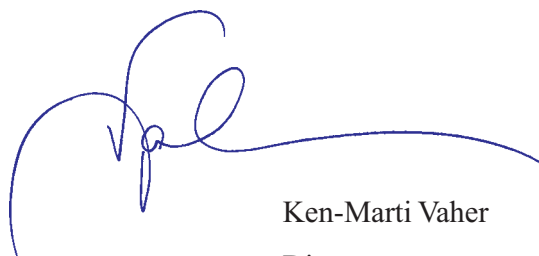


Document administration

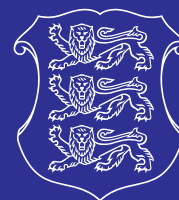
In the year 2000 we made thorough preparations to transfer document administration into electronic shape. As the first step in digitisation of documents an additional function for the copiers was procured - a fast scanning device with spelling function. The scanning service has become an indispensable tool facilitating the audit departments to document audit materials. In the framework of the intranet project it helped successfully to digitise documents which had since been on paper. This procurement ensured technical capability for creation of a paper-free document administration system in the SAO and the implementation of this system is the main task of document administration in 2001.

In summary

It is understandable that although the SAO has undergone rapid development in the last years, there are many things yet to be done - something that is always said about an efficient and progress-minded organisation. But for us this cliché holds a firm message - we have set clear prospects for us and we have the will to pursue them.



Ken-Marti Vaher
Director



6. Reports and opinions of the State Audit Office in 2000

In addition to the audits conducted on the basis of the annual plan – in 2000, 84 audits were under way and 62 were completed within the year¹⁴ – the SAO compiles two extensive reports for the Parliament on the basis of its audit results:

- report on use and preservation of state assets during past financial year and
- opinion on draft state budget.

6.1. Report on use and preservation of state assets

In September 2000 the SAO, as its obligation following from Article 135 of the Constitution, submitted to the Parliament the report on use and preservation of state assets in the financial year 1999.

Content of the report

The report of the SAO on use and preservation of state assets in 1999 concentrated on evaluation of the report on implementation of the state budget. The SAO also presented its observations concerning the accounting and reporting system of the public sector, as this system helps the Government to obtain an overview of state assets and ensure its preservation and use in accordance with legislation and the principles of economy, efficiency and effectiveness.

In order to provide to the members of the Parliament assurance that the decisions made by them are based on reliable information, the SAO, as the Government's external auditor, has concentrated a part of its activities – financial audit – on auditing the report on implementation of the state budget, as well as the accounting and reporting system and annual reports of institutions of the public sector, which constitute the basis of the aforesaid report.

The positions of the SAO are available on the homepage of the SAO at www.riigikontroll.ee where full text of the report is published.

¹⁴ The list of completed audits is presented in the Annex of the report and the audit decisions of the Heads of Departments on all audits are published on the homepage of the SAO at www.riigikontroll.ee.

6.2. Opinion on the draft state budget of 2001

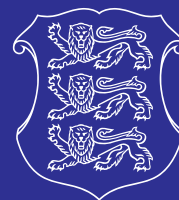
The SAO submitted its opinion on the draft state budget of 2001 to the Parliament on November 8, proceeding from the Constitution, the State Audit Office Act and the request of the finance committee of the Parliament.

Content of the opinion

With its opinion the SAO sought to facilitate the achievement of the goals set by the Government by drawing attention to possible dangers ensuing from adoption of the draft state budget of 2001 and by presenting to the Parliament and the Government of the Republic recommendations for improvement of the state's budgeting process in future.

Proceeding from the Government's wish expressed in the budget strategy to transfer from growth-oriented budgeting to zero-based budgeting, which would facilitate result-based management, the SAO focussed on ascertaining whether premises for compilation of a zero-based budget exist and presented its recommendations for improvement of the budgeting process.

The positions of the SAO are available on the homepage of the SAO at www.riigikontroll.ee where full text of the report is published.



7. Other activities of the State Audit Office

7.1. Consultancy concerning internal control in the public sector

In its audits the SAO pays great attention to the existence and operation of management and control systems of the public sector because efficient internal control provides to the Parliament, the Government of the Republic, the ministers and other decision-makers assurance that necessary premises have been created for achievement of the aims set for the organisations and that public resources are used in a legitimate, economical, efficient and effective manner.

The audits have revealed that internal control in the public sector has become more systematic in comparison with the year 1999. Department of Financial Control of the Ministry of Finance has started to develop a coordinated network of internal auditors, information sessions take place regularly, several specialist trainings are conducted, also work plans are mutually exchanged.

In the area of internal control the following consultancy has been offered to the public sector:

- Specific recommendations for increasing the efficiency of internal control have been made in the audit decisions of the Auditor General.
- Officials of the SAO have given lectures to higher officials and specialists of the public sector about internal control and internal audit.
- The Ministry of Finance has been advised in elaboration of good practices of internal audit and in methodological issues concerning conduction of audits.
- An auditor of the Department of Financial Control of the Ministry of Finance is receiving in-house training in the Performance Audit Department since December 2000.
- Several ministries (e.g. the Ministry of Justice) have been consulted on issues of internal control at their request.

The SAO has published translated materials which help auditors in their work.

During the next accounting period the SAO will continue consultancy on internal control and internal audit and develop efficient cooperation with the Department of Financial Control of the Ministry of Finance.

7.2. Answering to questions of the members of the Parliament

In accordance with the Constitution the Auditor General shall answer to the questions of the members of the Parliament.

In the year 2000 the Auditor General answered one question in the Parliament – the question of 12 members of the faction of the Centre Party “Damage caused to the state by the activities of Estonian National Television and the National Broadcasting Council”.

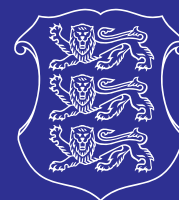
The Auditor General answered to five written questions of members of the Parliament.

7.3. Opinions on draft acts

In the year 2000 the SAO continued its active participation in preparation of draft legislation and gave its opinion about envisaged legislation on 9 occasions.

The SAO gave its position concerning the following draft acts and regulations:

- draft amendment acts of the Anti-corruption Act, the Credit Institutions Act, the State Gazette Act, the Parliament Internal Rules Act and the Public Service Act;
- draft Public Information Act;
- draft amendment act of the State Secrets Act;
- draft Health Insurance Fund Act;
- draft State Budget Act;
- draft Response to Memoranda Act;
- draft amendment act of the Public Service Act (transition to new wage system);
- draft amendments acts of the Bank of Estonia Act, the State Audit Office Act, the Peace-Time National Defence Act and the Legal Chancellor Act;
- draft amendment to Regulation No. 216 of the Government of the Republic of 8 July 1999 “Confirmation of the Procedure of Protection of State Secrets and Issuance of Access Permits to State Secrets”;
- draft Regulation of the Minister of Finance “Order of Publicising of Wage Information”.



Summary of accounting reports of the State Audit Office of the year 2000*

8.1. Principles of compilation of annual accounting report

- The annual accounting report is compiled in accordance with the Accounting Act of the Republic of Estonia and good accounting practices when those are not in contravention of Regulation No. 100 of the Minister of Finance of the Republic of Estonia of 30 November 2000 "Preparation, Submission and Approval of an Annual Report for 2000".
- In 2000 the SAO employed 88 employees on average. The personnel expenses were 19 384 542 kroons of which salaries made up 13 364 650 kroons and training expenses 13 364 650 kroons.
- Assets with acquisition cost exceeding 10 000 kroons (incl.) and with normal lifetime exceeding one year are treated as noncurrent assets. In accordance with Regulation No. 100 of the Minister of Finance of 30 November 2000 the budgetary resources allocated for acquisition of noncurrent assets are treated as revenue of the accounting period and the residual value of sold noncurrent assets is treated as expense of the accounting period. The noncurrent assets are taken on balance in their acquisition cost and depreciation is calculated using the linear method.

The depreciation norms for different types of noncurrent assets are as follows:

- buildings 8% p.a.
- vehicles 20% p.a.
- fixtures 20% p.a.

The balance of donated capital in the balance sheet is decreased by the depreciation of noncurrent assets received as donated capital and such depreciation is not reflected in the profit and loss statement on the row "Depreciation of noncurrent assets".

Low-cost noncurrent assets are assets the cost of which does not exceed 10 000 kroons.

Low-cost noncurrent assets are entered as expenses upon acquisition and accounting for such assets is conducted off balance.

Books taken on balance as noncurrent assets are reflected in the balance sheet according to their acquisition cost. Books are not depreciated.

- In accordance with applicable accounting principles, the lease revenue in the amount of 113 224 kroons which was to be transferred to the Tax Board as a liability was not reflected in the initial balance sheet as of 31.12.1999. Also the depreciation of noncurrent assets received as donation in the amount of 230 578 kroons was erroneously recorded under expenses of 1999. These corrections caused modification of the balances of profit, liabilities and donated capital as of 31.12.1999.

* According to respective regulation of the Minister of Finance the annual report of the SAO of 2000 consists of 9 Appendices from which the present summary of accounting reports is derived. Full text of the report is available at the SAO.

8.2. Balance sheet

	Accounting year 31.12.2000	Previous year 31.12.1999	
ASSETS			
Current assets			
Cash and bank	2 288 719	216 194	
Other receivables			
Receivables from employees	1 160	5 533	Appendix 1
Total	1 160	5 533	
Accrued income			
Lease revenue receivable	84 448	326 675	Appendix 1
Interest revenue receivable	0	35 195	
Total	84 448	361 870	
Prepaid expenses			
Prepaid insurance expenses	14 845	20 639	
Other prepaid expenses	59 456	74 165	
Total	74 301	94 804	Appendix 2
Inventories			
Prepayments to suppliers	19 905	0	Appendix 2
Total	19 905	0	
Total current assets	2 468 533	678 401	
Noncurrent physical assets			
Buildings and facilities	29 327 456	5 157 090	
Other noncurrent assets	8 562 731	6 682 048	
Depreciation of noncurrent assets	-7 724 200	-5 540 524	
Total noncurrent assets	30 165 987	6 298 614	Appendix 3
TOTAL ASSETS	32 634 520	6 977 015	

	Accounting year 31.12.2000	Previous year 31.12.1999	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Short-term loans and notes			
Short-term part of long-term liabilities	240 863	74 565	
Supplier payables	588 395	398 985	
Other current liabilities	2 211 864	152 354	
Total	3 041 122	625 904	Appendix 4
Tax liabilities	13 495	11 750	Appendix 5
Tax liabilities of personnel	49 677	460 780	Appendix 6
Accrued expenses			
Payables to employees	476 770	221 352	
Other accrued expenses	17 910	0	
Total	494 680	221 352	Appendix 7
Total current liabilities	3 598 974	1 319 786	
Noncurrent liabilities			
Long-term debts			
Debt to leasing companies	518 258	97 828	Appendix 8
Total	518 258	97 828	
Total noncurrent liabilities	518 258	97 828	
Total liabilities	4 117 232	1 417 614	
Owners' equity			
Owners' equity	5 534 130	5 215 659	
Donated capital	1 059 179	1 402 640	
Profit/loss of previous year	-1 377 370	318 472	
Profit/loss of accounting year	23 301 350	-1 377 370	
Total owners' equity	28 517 289	5 559 401	
TOTAL LIABILITIES AND OWNERS' EQUITY	32 634 520	6 977 015	
Off-balance sheet assets	1 770 371	1 760 445	Appendix 9
Off-balance sheet receivables	35 195	0	

8.3. Income statement

	Accounting year 2000	Previous year 1999	
Operating revenue			
Revenue from state budget	50678 813	20 895 087	Appendix 10
Revenue from economic activity	28 009	1 339 195	Appendix 11 and 15
Donations from legal persons	0	41 067	
Other revenue	0	240 450	
Adjustment of revenue	0	-825 845	
Total operating revenue	50 706 822	21 689 954	
Operating expenses			
Salaries and fees	13 364 650	11 416 896	
Social tax expenses	4 521 835	3 827 554	
Holiday benefits payable	244 235	0	
Other personnel expenses	1 253 822	1 541 532	
Administrative expenses	5 553 521	4 907 944	
Other operating expenses	83 559	0	
Total operating expenses	25 021 622	21 693 926	Appendix 12
Depreciation of noncurrent assets	2 329 933	1 372 595	
Operating profit/loss	23 355 267	-1 376 567	
Financial revenue and financial expenses			
Financial revenue	10 571	4 375	Appendix 13
Financial expenses	23 201	5 179	Appendix 14
Collection of taxes, payments, levies and fees			
Revenue from collection of taxes	1 220 339	0	Appendix 15
Transfer of taxes, payments, levies and fees	1 248 348	0	Appendix 15
Transfers and subsidies	13 278	0	Appendix 16
Accounted profit/loss	23 301 350	-1 377 371	

8.4. Appendices of financial reports of the year 2000

Appendix 1. Receivables

The amount of 1 160 kroons recorded as receivables from the employees is due to unused prepayment of administration expenses and the receivable lease revenue of 84 448 kroons is calculated on the basis of lease invoices for December.

Appendix 2. Prepayments

Prepayments for insurance expenses comprise the insurance payment of 14 845 kroons for the office building at 11A Narva Road and the property located therein.

Other prepayments include orders of manuals and periodicals published in 2001 of 43 856 kroons and prepayments of training expenses of 15 600 kroons.

On the basis of contracts concluded with suppliers prepayments of 19 905 kroons have been made to them.

Appendix 3. Noncurrent assets

	Acquisition cost	Depreciation	Acquisition of noncurrent assets	Transfer of noncurrent assets	Acquisition cost	Depreciation
	31.12.1999	31.12.1999	2000	2000	31.12.2000	31.12.2000
Land and buildings	5 157 090	2 163 324	24 170 366	0	29 327 456	3 480 734
Other noncurrent assets, incl.	6 682 048	3 377 200	2 426 130	545 448	8 562 731	4 243 466
Computing equipment	4 804 645	2 262 155	712 824	535 469	4 982 000	2 804 717
Vehicles	511 322	105 264	0	0	511 322	207 529
Total	11 839 138	5 540 524	26 596 496	545 448	37 890 187	7 724 200

As of 31.12.2000 the SAO owned two registered immovables.

In 2000, in addition to the immovable at 4 Narva Road, the SAO acquired a registered immovable at 11A Narva Road, Tallinn, with the acquisition cost of 23 275 434 kroons (a plot of land of 1577 m² is attached to the building).

As improvement expenses 866 922 kroons were invested in the office building at 11A Narva Road and 28 009 kroons in the office building at 4 Narva Road.

34 new computers were acquired during the financial year with the total cost of 670 000 kroons.

In connection with moving into the new building furniture for 1 593 370 kroons was purchased. 140 013 kroons were spent on purchasing administrative equipment and office equipment.

Appendix 4. Current liabilities

240 863 kroons will be paid to AS Hansa Liising Eesti and AS Ühisliising on the basis of capital lease contracts concluded for procurement of furniture and office equipment in 2001.

On the basis of administrative cost invoices of November and December 588 395 kroons are payable to suppliers. Other current liabilities include the lease revenue of 172 734 kroons received in December and 39 130 kroons received from the Court of Audit of Germany. The collateral of 2 000 000 kroons for the purchase of the office building at 4 Narva Road received from AS Eesti Krediidipank is also reflected under current liabilities.

Appendix 5. Tax liabilities

The tax liability of 13 495 kroons constitutes the V.A.T. calculated on the turnover of December 2000. The SAO is V.A.T. taxpayer for its lease revenue.

Appendix 6. Tax liabilities of personnel

The income tax, social tax and income tax on fringe benefits calculated on the salaries of December and fringe benefits granted to employees are reflected under tax liabilities of personnel. The total amount is 49 677 kroons.

Appendix 7. Accrued expenses

Holiday benefit liabilities as of 31.12.2000 were 461 836 kroons.

Other accrued expenses include 17 910 kroons for unpaid invoices for services of the year 2001.

Appendix 8. Noncurrent liabilities

The noncurrent liabilities comprise 518 258 kroons payable on the basis of capital lease contracts concluded for purchasing of furniture and office equipment. The contract concluded with AS Hansa Liising Eesti for purchasing of furniture terminates in 2004 and the contract concluded with AS Ühisliising in 2002. The contract concluded with AS Ühisliising for procurement of a copier terminates in 2002.

Appendix 9. Off-balance entries

Low-cost noncurrent assets are reflected off balance in acquisition cost.

Uncollectable receivables are reflected as off-balance receivables.

Appendix 10. Revenue from the state budget

In accordance with Regulation No. 100 of the Minister of Finance of 30 November 2000, revenue is reflected in the budget using the cash-based method, i.e. the expense and liability to suppliers is reflected upon receipt of purchase invoice as accrual-based, but when the State Treasury pays the invoice, it is reflected as revenue. The operating expenses of the SAO are covered from the state budget. In the year 2000, 50 875 674 kroons were allocated from the budget. The budget was implemented in the extent of 50 678 813 kroons.

Article	Budget (kroons)	Cash expense	Balance
10 Salaries	13 666 966	13 620 357	46 609
21 Social tax	4 633 489	4 633 489	0
30 Administrative expenses	7 148 000	7 147 805	195
37 IT	1 036 000	1 036 000	0
44 Purchased works and services	150 000	150 000	0
57 Membership fees of international organisations	16 287	11 553 ¹⁵	4 734
73 Major repair works	150 000	150 000	0
76 Acquisitions	903 040	783 723	119 317
77 Acquisition of immovable property	23 100 000	23 100 000	0
54 Study loan	71 892	45 886	26 006
Total:	50 875 674	50 678 813	196 861

In the year 2000, 196 861 kroons of budgetary allocations were left unused, including transferable resources of 119 317 kroons. In accordance with Regulation No. 100 of the Minister of Finance of 30 November 2000 the balance of unused and transferable budgetary resources is not reflected in the balance sheet.

Appendix 11. Revenue from economic activity

28 009 kroons of the revenue received from leasing of premises were used for improvement expenses of the leased building.

¹⁵ Reflected in the profit and loss statement on the row "Transfers and subsidies".

Appendix 12. Operating expenses

The major operating expenses in the accounting year were:

Salary expenses 13 364 650 kroons, incl. personnel reduction compensations 990 020 kroons

Social tax 4 521 835 kroons

Administration costs of premises 2 134 942 kroons

Business trip expenses 613 692 kroons

Office materials, publications 353 350 kroons

Low-cost articles and their maintenance 324 833 kroons

Transport expenses 313 370 kroons

Purchased works and services 150 000 kroons

Appendix 13. Financial revenues

Bank interest received was 10 571 kroons.

Appendix 14. Financial expenses

Interest paid on the basis of capital lease contracts was 23 201 kroons.

Appendix 15. Collection of taxes, payments, levies and fees

The accrual-based revenue from leasing the premises of the building at 4 Narva Road was 1 421 082 kroons of which, in accordance with Regulation No. 100 of the Minister of Finance of 30 November 2000, 172 734 kroons are reflected as liability and 28 009 kroons were used for improvement of the building. Thus 1 220 339 kroons were transferred to the state budget.

Appendix 16. Transfers and subsidies

Membership fees of international organisations (INTOSAI and EUROSAI) were 13 278 kroons.

9. Auditor's report



AUDITOR'S REPORT

AS PricewaterhouseCoopers

Narva mnt 9A
10117 Tallinn
www.pwcglobal.com/ee/

Telefon (0) 6 141 800
Faks (0) 6 141 900

To the Riigikogu

We have audited the annual accounts of the State Audit Office (institution) for the year ended on 31 December 2000, from which the summarised financial statements have been derived, provided on pages 45 – 52. We conducted our audit in compliance with the International Standards on Auditing.

In our report of 9 March 2001 we stated that the annual accounts, from which the summarised financial statements have been derived:

- Have been prepared correctly in all material respects in compliance with the Minister of Finance of the Republic of Estonia Regulation No 100 "Preparation, Submission and Approval of an Annual Report for 2000", dated November 30, 2000, and with the Republic of Estonia Accounting Act and generally accepted accounting principles in respects that these statements are not in contradiction with the aforesaid Regulation.
- As some principles set out in said Regulation are not in compliance with the accrual principle set forth in §4 (2) of the Republic of Estonia Accounting Act, the annual accounts, from which the summarised financial statements have been derived, do not give in all material respects a true and fair view of the financial position of the institution as of 31 December 2000 and the results of its operations in 2000 in compliance with the Republic of Estonia Accounting Act.

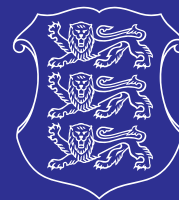
In our opinion, the attached summarised financial statements are in all material respects in compliance with the annual accounts, from which the summarised financial statements have been derived.

In order to get a better view of the financial position and economic performance of the institution for the given period and of the scope of our audit, the summarised financial statements should be read together with the annual accounts, from which the summarised financial statements have been derived, and with our report thereupon.

Urmas Kaarlep
AS PricewaterhouseCoopers

Ago Vilu
Authorised Public Accountant

4 June 2001

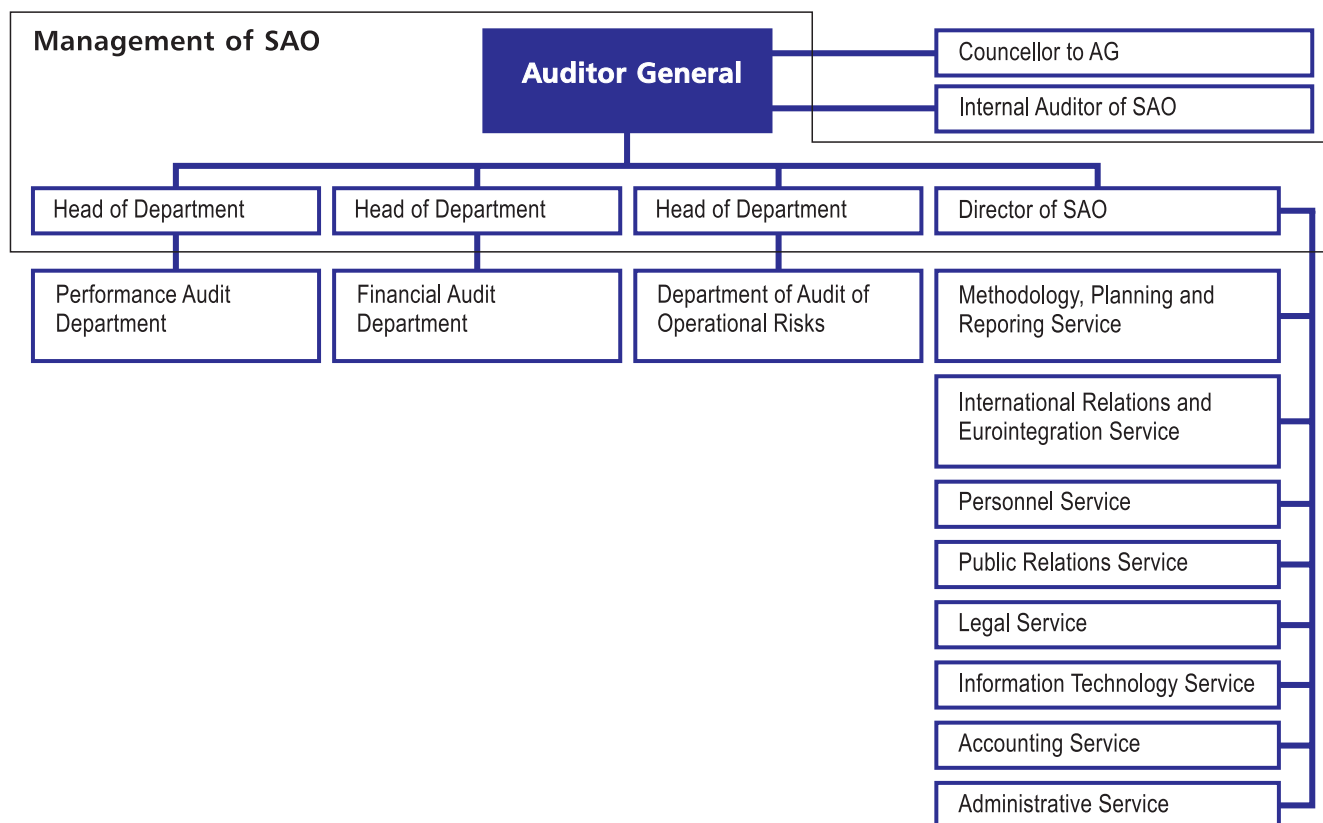


Annexes



Structure of the State Audit Office

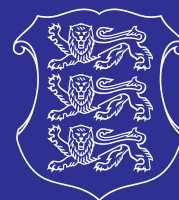
Organogram of the SAO



Structure of the SAO

- The SAO is managed by the Auditor General.
- The Auditor General is consulted by the management including the heads of the audit departments (Chief Auditors) and the Director.
- As of January 1, 2000 the SAO, following the example of supreme audit institutions of several other countries, based its internal structure on services and three audit departments were established instead of the former seven control departments.
- According to the new structure the departments are divided by types of audit. Such division makes it possible better to achieve the strategic aims set, whereas the specialisation of the departments on financial and performance audit and audit of operational risks makes it easier to obtain an exhaustive overview of the public sector.
- The structure of units supporting the principal activity of the SAO includes eight services: Public Relations Service; IT Service; Methodology, Planning and Reporting Service; Personnel Service; Accounting Service; International Relations and Eurointegration Service; Legal Service and Administrative Service. The services are managed by the Director of the SAO.
- In the beginning of January 2000 the internal auditor of the SAO started work. The aim of this new post is provision to the Auditor General assurance that the work of the SAO is efficient and ensures the achievement of aims.





RIIGIKONTROLL

Employees of the State Audit Office in the year 2000 (as of 31.12.2000)

Dag Ainsoo	Karin Leesment	Svetlana Rõbakova
Sale Ajalik	Tarmo Leheste	Tõnis Saar
Peeter Annus	Ingrit Lepasild	Ranno Saarmann
Asko Berens	Raivo Linnas	Tarmo Sepman
Katrin Gottlob	Küllü Lukk	Ülle Sibul
Mare Haljak	Peeter Lätti	Sven Soiver
Rein Harjo	Maidu Lääne	Maimu Soost
Liidia Heinlo	Airi Mark	Õie Soovik
Raivo Hurt	Siiri Martverk	Merike Starovoitov
Anne Hurt-Kivisalu	Kristjan Mellik	Saima Strenze
Heli Jalakas	Katrin Mihkelson	Madis Särekanno
Krista Jansen	Erki Must	Rein Söörd
Marit Joosep	Jane Mänd	Ira Tambik
Mare Kabrits	Kadri Mölder	Kaire Tamm
Katri Kadakas	Maimu Mölderson	Terje Tiiman
Reet Kalliver	Anneli Narusk	Galina Tjukina
Kaie Karniol	Andres Noormägi	Helen Trelin
Jaanus Kasendi	Ilme Ott	Tarmo Tuisk
Hedy Kohv	Leonid Paalandi	Timo Tupp
Eevi Kuld	Kristjan Paas	Liisi Uder
Lembi Kull	Juhan Parts	Arvo Ukleika
Karin Kuller	Raivo Pavlov	Ken-Marti Vaher
Tiia Kumm	Kairit Peterson	Aivo Vaske
Jüri Kurss	Urmas Peterson	Airi Viiaart
Vello Kuuse	Sven Potapov	Ene Viru
Jüri Kõrge	Jüri Raatma	Meelis Väik
Marika Külmalik	Eva Reinula	Jelena Zubova
Kalev Lattik	Evi Riives	Vladimir Žugov
		Andrus Ümarik



List of audits carried out in the year 2000

The audits carried out in the year 2000 were divided across ministries and their administrative areas as follows:

Ministry of Education

1. Economic activity of the Ministry of Education in 1999;
2. Legality of use of resources allocated from the state budget to Tallinn Technological University for investments;
3. Activity of the Ministry of Education in presentation of the state education order to the universities;

Ministry of Justice

1. Economic activity of the Ministry of Justice in 1999;

Ministry of Defence

1. Economic activity of AS E-Arsenal;
2. Compilation of the draft budget of units of defence forces;
3. Personnel management in the defence forces on the example of personnel planning of Headquarters of the Defence Forces;
4. Accounting of assets, accounting of catering costs and their reflection in accounting of the Military Training Centre of the Defence Forces;
5. Organisation of accounting of noncurrent assets of United Training Institutions of the Defence Forces;

Ministry of the Environment

1. Economic activity of the Ministry of the Environment in 1999;
2. Activity of the Ministry of the Environment in organisation of creation and administration of protected areas;
3. Activity of OÜ Keskkonnauuringute Keskus in execution of works ordered by the Ministry of the Environment;
4. Organisation of management of environmental projects on the example of construction of water supply, sewerage and water protection facilities in the city of Keila;
5. Performance audit of the internal control and internal audit system of project management of the Ministry of the Environment;

Ministry of Culture

1. Economic activity of the Ministry of Culture in 1999;
2. Legality of use of resources allocated from the state budget to the national opera "Estonia" for investments;

Ministry of Economy

1. Economic activity of the Ministry of Economy in 1999;
2. Restructuring of AS Eesti Energia;

Ministry of Agriculture

1. Economic activity of the Ministry of Agriculture in 1999;
2. Activity of the foundation Credit Fund of Agriculture and Country Life;
3. Activity of the state-owned business undertaking AS Eesti Seeme;
4. Legality, efficiency and effectiveness of organisation of the state seed reserve;

Ministry of Finance

1. Economic activity of the Ministry of Finance in 1999;
2. Purposefulness and effectiveness of use of the subsidy for restructuring of the economic system obtained from the International Monetary Fund;
3. Legality of administration of the common reserve for servicing foreign debt in the Ministry of Finance;
4. Legality of economic activity of the Traffic Insurance Fund;
5. Generation and use of state statistics in the making of management decisions;

State Chancellery

1. Economic activity of the State Chancellery in 1999;
2. Economic activity of the car pool of the State Chancellery before its reorganisation;
3. Follow-up audit of the State Chancellery;

Ministry of Internal Affairs

1. Economic activity of the Ministry of Internal Affairs in 1999;
2. Legality of acquisition of passenger cars in the administrative area of the Ministry of Internal Affairs;
3. Legality of economic activity of the Police School;

4. Legality of use of resources allocated for major refurbishment of the complex at 6 Rahumäe Road;
5. Economic activity of the foundation Estonian Migration Fund;
6. Legality of use of resources allocated from the state budget to the Ministry of Internal Affairs for Eurointegration;

Ministry of Social Affairs

1. Economic activity of the Ministry of Social Affairs in 1999;
2. Legality and economy of use of resources allocated from the state budget in support of popular sport;
3. Legality of organisation of procurement of medical treatment services in regional health insurance funds;
4. Organisation of use of resources allocated to the Estonian health care project and effectiveness of the project;
5. Legality of management of the state assets at the disposal of the Labour Market Administration;
6. Effectiveness of IT project management in the Ministry of Social Affairs on the example of the PHARE aid programme;
7. Legality of payment of state unemployment benefits in Tallinn Employment Office;
8. Legality of management of the state assets at the disposal of Keila Hospital;

Ministry of Transport and Communications

1. Economic activity of the Ministry of Transport and Communications in 1999;
2. Economic activity of the Road Administration in 1999;
3. Economic activity of the Maritime Administration in 1999;
4. Performance audit of the internal control and internal audit system of the Ministry of Transport and Communications;
5. Legality of the public procurement of the vessel EVA 019 owned by the Maritime Administration and purposeful use of the vessel;
6. Preparation of shares of AS Eesti Telekom for sale and organisation of sale;
7. Legality of use of resources allocated to the Maritime Administration for maintenance and modernisation of waterways;
8. Implementation of result-based management principles in the Railway Administration;

Ministry of Foreign Affairs

1. Economic activity of the Ministry of Foreign Affairs in 1999;
2. Legality of use of resources allocated from the state budget to the Ministry of Foreign Affairs for Eurointegration;
3. Effectiveness of further training of public servants in the Ministry of Foreign Affairs.

In the year 2000 the audits involved the following local government bodies:

Türi Rural Municipality Government

Legality and purposefulness of use of state investments;

Paide City Government

Legality of use of investments allocated from the state budget;

Kõo Rural Municipality Government

Use of investments allocated from the state budget;

Rakvere Rural Municipality Government

Legality of payment of state social benefits.

- In addition the revenues and costs of local government bodies were analysed.

In the year 2000 the SAO also analysed

- the effectiveness of declaration of economic interest in prevention of corruption in the Republic of Estonia
and
- the correspondence of administered state institutions to the standards of INTOSAI.

Audit decisions of the Heads of Departments on all the aforementioned audits are available on the homepage of the SAO at www.riigikontroll.ee.



Chronology 2000

January

- 01.01 The SAO is transferred to service-based structure. Three audit departments start work – Performance Audit Department, Financial Audit Department and Department of Audit of Operational Risks.
- 13.01–14.01 Auditor General Juhan Parts and Director of the SAO Ken-Marti Vaher meet in Paris with the partners of the so-called Netherlands PSO programme¹⁶ in order to discuss the general principles of the programme and agree on further action, coordinating it with SIGMA who provides to the SAO aid in compilation of its strategic development plan.

February

- 07.02–09.02 The leaders of the Netherlands PSO programme Karel te Lindert from the Netherlands Court of Audit and Hermann Snelder from MDF hold negotiations with the responsible officials of the SAO concerning specification of the projects of the programme for the year 2000.
- 07.02–10.02 Expert of SIGMA Lage Olofsson visits the SAO in connection with compilation of the strategic development plan of the SAO.
- 14.02–18.02 Consultants of the Netherlands Court of Audit Martin Abbink and Jan Velthoven visit the SAO in connection with the pilot audit “Performance audit of internal control and internal audit systems of project management in the Ministry of Transport and Communications and the Ministry of the Environment”.
- 16.02–18.02 Auditor General and Head of the International Relations and Eurointegration Service Rein Söörd participate in the XXII Board Meeting of EUROSAI and in the first Euro-American Conference of Supreme Audit Institutions organised by EUROSAI and OLACEFS¹⁷ in Madrid.
- 21.02–23.02 Expert of the Finnish State Audit Office Tuomo Salminen consults the IT Service about administration of computer systems.
- 27.02–29.02 Head of the Performance Audit Department Raivo Linnas and audit specialist Leonid Paalandi participate in the conference of officials of supreme audit institutions of the countries of the Baltic Sea region in Warsaw held in the framework of the audit of implementation of the Helsinki Convention.

¹⁶ A two-year programme for development of various fields of activity of the SAO organised by the state-financed Netherlands Court of Audit, the management consultancy company MDF and the agency SENTER.

¹⁷ Organisation of Latin-American and Caribbean Supreme Audit Institutions.

- 28.02 The strategic development plan of the SAO for the years 2000–2003 is completed.

March

- 20.03–31.03 Coordinator of the Netherlands PSO programme Willo Brock visits the SAO to meet participants of the programme and complete the report on the preparation period. He also conducts two training events for employees of the SAO involved in management of the project.
- 20.03 Lage Olofsson visits the SAO to coordinate the activities of SIGMA and the Netherlands PSO programme in implementation of the strategic development plan.
- 21.03 Meeting of consultants of the Netherlands PSO programme in the SAO where the content of the report on the preparation period is discussed and expected results and the action plan of the year 2000 are specified.
- 27.03–31.03 Audit manager of the Financial Audit Department Kaie Karniol participates in the UN/INTOSAI joint seminar “Auditing of Public Sector Health Care Systems” in Vienna.

April

- 02.04–03.04 Slovenian Auditor General Vojko A. Antonchich visits the SAO. With the Auditor General he discusses issues connected with holding of the meeting in Riga of the work team set up for monitoring of implementation of the recommendations of the 1999 Prague meeting of supreme audit institutions of Central and East European countries, other candidate states and leaders of the European Court of Auditors. The work team is led by the SAO of Estonia and the Slovenian Court of Audit. At the meeting of the Slovenian Auditor General with the management of the SAO development of both organisations, their priorities and problems are discussed.
- 04.04–05.04 Auditor General and Head of the International Relations and Eurointegration Service Rein Söörd participate in the meeting of the supreme audit institutions of Central and East European countries, Malta and Cyprus and the joint work team of the European Court of Auditors in Riga.
- 05.04–07.04 Auditor General participates in the summit conference on public sector financing and administration organised by the Adam Smith Institute in London.
- 15.04–21.04 Consultant of MDF Riet Nigten visits the SAO in the framework of the Netherlands PSO programme. Issues of development of personnel management are dealt with.

- 15.04–04.05 Consultant of MDF Silvio van der Cammen visits the SAO in the framework of the Netherlands PSO programme. The topic is determination of training needs.
- 15.04–31.05 Willo Brock visits the SAO. The work is concentrated on mapping of the processes of the SAO and consequent development of a process manual.

May

- 08.05–11.05 Head of the Performance Audit Department Raivo Linnas and audit manager Eva Reinula participate in the II INTOSAI International Internal Control Conference in Budapest.
- 15.05–19.05 Audit manager of the Performance Audit Department Eva Reinula and audit specialist of the Financial Audit Department Õie Soovik participate in the training of the ISPA programme of the EU in Ireland.
- 16.05–17.05 Audit specialist of the Performance Audit Department Leonid Paalandi participates in the second conference of supreme audit institutions of the countries of the Baltic Sea region at Sastaholm near Stockholm in the framework of the audit of implementation of the Helsinki Convention.
- 16.05–17.05 Karel te Lindert and Herman Snelder visit the SAO in the framework of the Netherlands PSO programme, meeting the management for planning of pilot audits.
- 19.05–20.05 The annual meeting of Estonian, Latvian and Lithuanian State Audit Offices is held in Saaremaa. For the first time representatives of supreme audit institutions of the Nordic countries and SIGMA participate. The central topics discussed at the meeting are training and certification of auditors and evaluation of their performance. Auditing of resources allocated by the EU and relationships between the supreme audit institutions and the parliament are also discussed at the meeting.
- 22.05–23.05 Martin Abbink and Jan Velthoven visit the SAO to summarise the results of the pilot audits in the Ministry of Transport and Communications and the in the Ministry of the Environment, they also give the lecture “The Philosophy of Auditing”.
- 22.05–24.05 Lage Olofsson visits the SAO to participate in summarising the pilot audits and in the discussion on organising the training envisaged in the framework of the Eurointegration project.
- 24.05–26.05 With the participation of consultants of the Netherlands Court of Audit Martin Abbink and Mark Hendrix preparations are made for a financial audit to be conducted as a pilot audit in the framework of the Netherlands PSO programme.

28.05–31.05 Personnel advisor Terje Tiiman participates in the VII world congress “Management of Human Resources” in Paris.

June

01.06–02.06 Auditor General participates in the conference of Auditors General of the states included in the first round of accession negotiations with the EU held on Cyprus.

08.06–09.06 Head of the Financial Audit Department Ranno Saarmann participates in the data analysis conference of supreme audit institutions of the Nordic countries in Helsinki.

08.06–09.06 Auditor General, Head of the Methodology, Planning and Reporting Service Aivo Vaske and Advisor of the International Relations and Eurointegration Service Karin Kuller visit the Swedish State Audit Office. The main issues of interest are the long-term experience of the Swedish State Audit Office in compilation of auditing programmes and in focussing its activities with the aim of benefiting its main customer – the Parliament. The training system of auditors is also investigated.

12.06–13.06 The delegation of the finance committee of the Landtag of the Mecklenburg-Vorpommern Bundesland on a visit to Estonia is received in the SAO.

19.06–21.06 In the framework of the Netherlands PSO programme consultants of the Netherlands Court of Audit Fons Gloerich and Jan Velthoven visit the Performance Audit Department of the SAO. In cooperation with them a recommendation for the audit of implementation of the Helsinki Convention is drawn up.

July

09.07–11.07 Audit specialist of the Financial Audit Department Õie Soovik participates in the meeting of the work team of legal framework and management of the EU special preparatory programme in Portugal.

August

07.08 The SAO starts work in its new building at 11A Narva Road.

22.08–23.08 Lage Olofsson and expert of the Swedish State Audit Office Veronica Hedlund consult the specialists of the SAO on establishing the internal audit function in the SAO.

22.08–25.08 Matti Mattila from the Finnish State Audit Office introduces the use of the IDEA programme in finance audit training at Jäeneda.

28.08–22.09 Another mission of Willo Brock to the SAO. The topics include compilation of the process manual, elaboration of the time accounting system and preparation of management training, as well as personnel development.

September

04.09–05.09 President of the European Court of Auditors Jan O. Karlsson visits Estonia. The purpose is to get acquainted with the development of internal control of the public sector of Estonia as a future member state of the European Union and with the work of the SAO. The delegation also includes member of the European Court of Auditors Maarten B. Engwirda, International Relations Director Chris Kok and Head of the President's Office Michel Hervé.

04.09 Proceeding from the Constitution the SAO submits to the Parliament "Report on use and preservation of state assets in 1999".

06.09–08.09 Expert of the Danish State Audit Office Rolf Elm-Larsen conducts in the SAO a seminar on financial regulations of the European Union.

06.09–06.10 Head of the Performance Audit Department Raivo Linnas participates in an international audit course at the UK National Audit Office.

08.09 Auditor General participates in the meeting of representatives of the supreme audit institutions of the Nordic countries and the Auditors General of the three Baltic states in Oslo. The focus of the meeting is on discussion of possibilities for cooperation in conduction of audits and involvement of Nordic experts in the development of State Audit Offices of the Baltic states.

11.09–13.09 The Danish Auditor General Henrik Otbo visits the SAO and makes a presentation about the work and goals of the Danish State Audit Office. Auditor General awards the Danish Auditor General the State Audit Office Medal as a recognition for his contribution to the cooperation between the two State Audit Offices.

11.09–15.09 Martin Abbink and Mark Hendrix visit the SAO in relation to planning of the pilot audit in the Financial Audit Department.

20.09–22.09 Acting Head of the IT Service Asko Berens and system administrator Tarmo Sepman get acquainted with the information systems of the Finnish State Audit Office and visit the information technology fair in Helsinki.

25.09–29.09 The Netherlands management experts Jan Renger, Willemina van Otterlo and consultant Silvia van Cammen organise a three-day management training for the management of the SAO.

October

- 02.10 Audit manager of the Performance Audit Department Peeter Lätti starts a five-month in-house training in the European Court of Auditors.
- 02.10–05.10 Jan Velthoven and Fons Gloerich visit the SAO to discuss the findings report of the audit of implementation of the Helsinki Convention.
- 03.10–04.10 Head of the International Relations and Eurointegration Service Rein Söörd participates in the meeting of liaison officials of supreme audit institutions of the European Union in Luxembourg and presents a review of activities of the work team headed by the SAO and the Slovenian Court of Audit.
- 05.10 Officials of the European Court of Auditors Julian Chapman and Kurt Bungartz visit Estonia in connection of auditing of the TACIS¹⁸ cross-border cooperation programme. Audit specialists of the Performance Audit Department Maimu Mölderson and Leonid Paalandi participate as observers of the SAO.
- 05.10 Auditor General and Rector of the University of Tartu Jaak Aaviksoo sign the cooperation agreement which forms a basis for further cooperation between the SAO and the university in the fields of education and science.
- 23.10–25.10 Head of the Performance Audit Department Raivo Linnas participates in the first meeting of the EUROSAI environment management audit work team in Warsaw. The goal of the work team is facilitation of cooperation in environmental auditing in Europe.
- 23.10–27.10 Experts of the Danish State Audit Office Rolf Elm-Larsen and Morten Levysohn carry out the training seminar on application of European implementation guidelines of INTOSAI auditing standards.
- 26.10–27.10 Auditor General and Head of the International Relations and Eurointegration Service Rein Söörd participate in the meeting of the supreme audit institutions of Central and East European countries, Cyprus and Malta and the work team and liaison officials of the European Court of Auditors in Prague.
- 31.10–01.11 Head of the Public Relations Service Kadri Mölder and information officer Katrin Gottlob get acquainted with the work of the information centre of the Danish State Audit Office.

¹⁸ European Community Aid Programme for Technical Assistance to the Commonwealth of Independent States and Mongolia.

November

- 01.11–02.11 Expert of the Swedish State Audit Office Veronica Hedlund advises the SAO on organisation of internal audit.
- 01.11–16.11 Willo Brock and Riet Nigten are on another visit to the SAO in the framework of the Netherlands PSO programme.
- 14.11–15.11 Audit specialist of the Performance Audit Department Leonid Paalandi participates in the third expert meeting on the international audit of implementation of the Helsinki Convention held in Copenhagen.
- 13.11–17.11 Martin Abbink and Mark Hendrix visit the SAO in connection with the pilot audit of the Health Insurance Fund.
- 16.11–17.11 Expert of the Portuguese State Audit Office Helena Lopez and expert of SIGMA Lage Olofsson conduct a seminar on the strategy of accession to the European Union.
- 20.11–24.11 Jan Velthoven and Fons Gloerich visit the SAO in connection with the discussion of the final report of the audit of implementation of the Helsinki Convention.

December

- 05.12–07.12 Jan Velthoven and Fons Gloerich conduct training on performance audit.
- 06.12–07.12 Head of the Department of Audit of Operational Risks Raivo Pavlov participates in the World Bank seminar “Battle with Corruption: Strategies of Fighting Corruption in Poland and Lessons of International Experience” in Warsaw.
- 07.12–08.12 Karel te Lindert and Herman Snelder visit the SAO. Results of the year are reviewed and action for the next year in the framework of the Netherlands PSO programme is planned.
- 07.12–13.12 Willo Brock pays his last visit to the SAO. The role of the coordinator is assumed by Sef Maessen from MDF.
- 07.12–08.12 Auditor General participates in the annual meeting of the supreme audit institutions of Central and East European countries, Cyprus and Malta and leaders of the European Court of Auditors held in Sophia, jointly with the Slovenian Auditor General he presents the report of activity of the work team.
- 11.12–12.12 First work visit of the new coordinator of the Netherlands PSO program Sef Maessen to the SAO.

¹⁹ INTOSAI Development Initiative.

- 11.12–13.12 Training advisor Külli Lukk participates in the strategic planning seminar of the long-term EUROSAT/IDI¹⁹ training programme in Oslo.
- 18.12 Auditor General attends the discussion of implementation of the Netherlands PSO programme with representatives of MDF and SENTER held in the Netherlands.



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