

Annual report 2007

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Dear reader!

The National Audit Office (NAO) has committed itself also in 2007 to bringing real benefit to the state by providing competent observations, opinions and recommendations. Taxpayers have the right to demand a lot from us. For the amount of money spent on the NAO's maintenance costs the taxpayers expect results that are worth the expenses.

Our resources are limited as is everything in our small country. Thus we have to focus on what is important instead of paying attention to many things at the same time. Concentrating on small things prevents us from focusing on big issues that are primary in the life of the state and that require hundreds of millions or even billions of kroons.

Though auditing around the world has traditionally been focused on the past, the role of audit has changed and is changing. In recent years the supreme audit institutions of the countries of the world have reoriented themselves to the future, because at today's pace of life there is nothing to do with wisdom that comes afterwards.

We too can give examples of new kinds of audits – for instance an audit of sustainability in agriculture and an audit of waste water treatment capacity.

The new direction means that the past and the present are examined for the purpose of providing timely information about the future to political decision-makers – the parliament and the government.

Hence, the so-called sustainability audits have become an issue all over the world. These are audits that analyse and forecast the extent to which our activity or inactivity today bears upon the future – for example ten or twenty years from now. Such sustainability audits are especially topical in countries which at one time created luxurious systems of social security payments and diverse benefits. With ever fewer taxpayers and ever more dependants, this practice will not last long.

Estonia too faces all these issues – how to maintain a country with an aging population that has fewer workers and value creators in the future? Where, how and by whom is the spendable income generated? We surely can divide the income, if only there would be something to divide. What should be the structure of a sustainable country or economy? What kind of education should be provided for people to survive in global competition? What should a cost-effective health care system look like? What should be done to have a lamp lit, clean air to breathe and pure water to drink in 25 years?

The mission of the National Audit Office of Estonia is to provide timely information that would help make decisions and shape policies, the consequences of which are to be seen only after years. The purpose of our audits is to bring awareness of issues and to spur discussion on how to solve problems as rationally as possible or prevent their occurrence – avoid them.

Mihkel Oviir
Auditor General

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1. The NAO's core activity in 2007

Who does the National Audit Office work for?

The National Audit Office is an independent auditor that operates in the interests and on the account of taxpayers and has the task of looking into how the state and local governments have spent taxpayers' money and what they have offered in return. The results of the work of the NAO are first of all addressed to the Parliament, Government and the general public.

While the National Audit Office and ministries act as discussion and debate partners, whose task is to see to it that the state manages the affairs of taxpayers as efficiently and economically as possible, the roles of the Parliament include both that of a designer of discussions and of an intermediary. On one hand, by issuing legislation the Parliament provides the framework discussions, on the other hand it evaluates, on the basis of the information submitted to it by the NAO, how in spending public money the Government has abided by the will of the people's representatives, i.e. laws. While doing that, the NAO is not only interested in the activity's official compliance with the legislation but also in whether the legislation and the activity of the Government is enough to ensure the expedient and purposeful use of the funds as well as reporting that would give an adequate overview of the expenses. Thus, the objective of communicating with the Parliament is to make recommendations on improving the management of the state (i.e. first and foremost the use of taxpayers' money). It is not in the competence of the NAO to punish anyone, nor does it exercise authority - by making recommendations the NAO helps those whose job is to adopt decisions.

Being based on audits carried out during a year, the NAO prepares a summary report that will be presented to the Parliament – an overview on the use and preservation of state assets during the preceding fiscal year. This is the NAO's constitutional duty.

In this chain of relations, the role of the taxpayer is certainly that of the owner – without the taxpayer there would be no money to spend, the spending could not be audited and neither the spending nor the auditing could be evaluated. Since irrespective of the issue under review the case always concerns the money of the taxpayer, i.e. the owner, the results of audits carried out by the NAO are brought to the general public via the Internet and media.

Both the Constitution and the State Audit Office Act declare that the NAO is an independent institution that is competent to decide on the manner, time and nature of its audits. Nonetheless we do not aim at independence to an extent where nothing actually depends on us. We are ready to consider the wishes of those for whom we work within the scope of the criteria that we have established for ourselves (the aim of carrying out audits the results of which could be universalised in broader terms as regards the entire government sector; the number of people whom the topic essentially affects; the amount of money). Generally the audit objects are determined as a result of monitoring. This means that information has to be collected systematically regarding the areas of life that the NAO is interested in, in order to get an overview of the problems and the steps the state has taken to solve them. In addition to looking for new audit topics we also observe the course of things when already audited topics are concerned, monitoring the implementation of recommendations made in the audit report or considering a follow-up audit.

In the international usage, institutions like the NAO are referred to as “supreme audit institutions”, which means that they have a say in other supervisory activities of the public sector besides the principal activity, i.e. audits. Auditors of the NAO advise officials in the development of management, accounting, control systems and audits. The single aim is to ensure that as much taxpayer money as possible is controlled with as few expenses as possible.

Essence of financial audit

The State Budget Act establishes the obligation of the NAO to give an assessment to the consolidated annual report drawn up by the Government of the Republic. All Audit Departments have contributed to the preparation of an opinion on said report, and in order to fulfil that duty financial audits are planned and performed so as to cover major cash flow, assets and liabilities that are important from the state's point of view. This may, according to risk assessments, imply performing financial audits in both the ministries and their sub-offices as well as in foundations founded by the state, companies with state participation, etc.

Upon performing its audits the NAO relies on the auditing standards of INTOSAI (International Organisation of Supreme Audit Institutions) according to which the financial audit consists of

- the audit of the annual accounts including an opinion on financial reports;
- the legality audit involving the study of the legality of transactions, i.e. assessing compliance with applicable laws and regulations (compliance with requirements).

While auditing the annual accounts we wish to assure the reader that the annual accounts correctly record the activities of the reporting entity during the period as well as its financial situation at the end of the period. Upon auditing the legality of transactions we assess whether the auditee in its economic activities has complied with the relevant legislation applied in its area of activity.

Without giving an opinion we shall also point out the observations on financial management and internal control systems made in the course of the audit.

Essence of performance audit

The objective of the performance audit is to provide comprehensive information to the Parliament, the Government and the public on how well the state has achieved the set objectives. This means primarily that the public is informed about the shortcomings in the activity of the public sector and the responsible officials are directed to address the said problems. But the National Audit Office does not stop at identifying and characterizing the shortcomings, it also tries to analyze the reasons for the problems and suggest ideas for their elimination. Another objective of the performance audit is to identify the best administrative practice and contribute to their distribution.

The object of the performance audit and the monitoring activity the audit is above all based on everyday problems and public sector's activity in solving them. The NAO tries to focus on problems that will influence a lot of people over a long period of time, and regarding which there is reason to suspect systematic errors in the state's activity. Avoiding getting caught in politics, the fact whether the Government has taken or planned to take any steps to solve the respective problem is also taken into account upon selecting objects for performance audit. Also, the audited problem may be one regarding which the Government does not have a specific plan of action but which is important for the achievement of a national objective specified on a more general level.

Performance audit focuses on three aspects – economy, efficiency and effectiveness.

Economy (minimizing the expenses made in order to achieve an objective) is generally not separately audited by the NAO but opinions on economy may be given when auditing efficiency.

In assessing **efficiency**, the NAO analyzes the processes administered by the public sector – if and how it would be possible to increase the profit of the activities by using the same resources, or reach the same goal by spending less.

In assessing **effectiveness**, the NAO analyzes the following:

- achievement of objectives declared in legislation and planning documents;
- actual effect achieved through the activity in comparison with desired effect (if there is no information regarding the effect or it is insufficient, the NAO itself will try to collect necessary information).

The NAO is also interested in the prerequisites of efficiency and effectiveness. This means that we analyze whether in planning and implementing activities the public sector takes guidance from the principle of sound administration and actual needs of society. Moreover, the NAO may also examine whether the Government has a purposeful plan of action to achieve certain social objectives, how it has developed, if and how it is connected to other activities of the Government and whether it is sufficiently managed. A lot of attention is paid to the existence and reliability of the reporting information characterizing expenditure, total net gain and effect.

1.1. Structure

In 2007 the structure of the National Audit Office was as follows:

Audit Department I audits the area of government of the Ministry of Finance, the Ministry of Foreign Affairs, the State Chancellery and constitutional institutions. **Juhani Lemmik** is the Director of Audit in this Department.

Audit Department II audits the area of government of the Ministry of Justice, the Ministry of Defence and the Ministry of the Interior as well as county governments. **Ülle Madise** is the Director of Audit.

The duty of **Audit Department III** is to audit the area of government of the Ministry of Education and Research, the Ministry of Culture and the Ministry of Social Affairs. **Jüri Kõrge** is the Director of Audit.

The auditors of **Audit Department IV** are responsible for auditing the area of government of the Ministry of the Environment, the Ministry of Economic Affairs and Communications and the Ministry of Agriculture. **Tarmo Olgo** is the Director of Audit.

Audit Department V works with local governments in order to contribute to the strengthening of control over the legitimacy of using public sector funds. **Airi Mikli** is the Director of Audit.

1.2. Audit Department I

Audit Department I audits the constitutional institutions (Bank of Estonia, Office of the President, Chancellery of the Parliament, Supreme Court, Office of the Chancellor of Justice), the Ministry of Finance, the Ministry of Foreign Affairs, the State Chancellery as well as the administrative agencies and companies operating in their areas of government or administration. The area of government of the Ministry of Finance comprises the Tax and Customs Board, Statistics Estonia and the Public Procurement Office as well as AS Andmevara, AS Eesti Loto and Riigi Kinnisvara AS. The area of government of the State Chancellery comprises the National Archives.

Last year the department was composed of 15 positions: a director of audit, three audit managers, four senior auditors and seven auditors. At the beginning of 2007, eleven of these positions were filled – those of director of audit, two audit managers, four senior auditors and four auditors. During the year, two new people were recruited by the department, both of them for the position of auditor. Three employees left the department during the year. The main problems facing the department in 2007, as in 2006, were understaffing and employee turnover.

One of the objectives of the department in 2007 was to support further improvement in the state's financial management through audits and participation in the working groups of the Ministry of Finance. Another objective was to facilitate the development of the state's real property policy. With regard to EU financial support, the main objective was to get an answer to the question whether the government was ready to assure the Parliament that the EU funds had been used regularly.

During the year, 7 audits were launched and 10 audits were completed with an audit report, including 4 of those that had started already in 2006. The completed audits included 8 financial audits, 1 performance audit, and 1 special report. The department also participated in the conduct of a cross-NAO audit. The completion of two performance audits was postponed until 2008. Two audits included in the NAO work plan were not performed due to the lack of qualified audit staff, and two audits were not performed due to a time schedule found to be unsuitable in the course of the preliminary survey. In addition to audit procedures, it was initially intended to compile a section for the overview of the use and preservation of state assets, but the barrier here too was inconvenient timing.

Juhani Lemmik, the department's Director of Audit, participated in the working group on the state's real property policy development and in the working group on the state's financial management improvement at the Ministry of Finance. Within the framework of cooperation amongst the Supreme Audit Institutions of the European Union, he attended two meetings of the SAIs Working Group on Common Auditing Standards and Comparable Audit Criteria. In the second half of the year, participation in the said working group was taken up by the Methodology, Planning and Analysis Service.

The objective of the Working Group is to develop a consistent view on approaches to the audit of EU funds in the Member States and to agree on common minimum standards.

Audit manager Krista Zibo participated in the Working Group of the EU SAIs on EU financial management, the longer term objective of which is the development of national reports on EU financial management that enable the making of comparisons between the Member States. Currently, such comparisons have been made only by The Netherlands Court of Audit since 2003.

Important audit results

”Special report on the use of European Union financial support in Estonia in 2004–2006”

The NAO aimed at providing an overview of financial management in the field of using European Union financial support in 2004–2006. In financial terms, the report covers three major types of aid:

aid from the Structural Funds and the Cohesion Fund and amounts paid in the framework of the implementation of the Common Agricultural Policy of the EU.

The NAO prepared the report with focus on the management and control systems¹ for aid amounts, reporting, and the budgeting and actual use of aid amounts in 2004-2006. In addition, the management and control system for Estonia's national contributions to the EU budget was examined.

The report was based mostly on publicly available materials (e.g. legislative texts, foreign aid reviews, monitoring reports, assessment reports, the reports of the European Court of Auditors, and yearbooks on auditing the EU Structural Funds), but also on interviews with relevant authorities concerning their internal procedures and with official responsible for this area.

The National Audit Office considered the implementation of the management and control system established for the processing of financial support to be satisfactory. The NAO finds that the established system complies in material respects with the requirements set by the European Commission. The major irregularities pointed out by the auditors were the following: indicators established for measuring the effectiveness of activities are not distinct; the informing and notifying activities of the Agricultural Registers and Information Board (ARIB) are insufficient, resulting in a large number of errors in application for and disbursement of support paid on the basis of EU Common Agricultural Policy; confirmations given by the intermediate body to the managing authority that the support from the Structural Funds has been used regularly and for eligible expenditure are rather formal and not substantive (as the confirmation is given without carrying out any activities).

The NAO considered the accounts to be proper in general, but found that the reports submitted to the Government of the Republic and the Parliament were incomplete. According to the NAO, financial management in the field of using EU support needs improvement, in particular the processing phase, for in spite of an enhanced capacity for using EU supports (on average, the use increased from 53 % to 73 % in 2004–2006), the result obtained is still too poor – 0.5 billion kroons from the previous financing period remained unused.

With regard to Estonia's contribution to the EU budget, the NAO is of the opinion that the management and control system established in Estonia is adequate for ensuring the proper accumulation, reporting and transfer to the European Commission of own budget funds. Furthermore, the auditors find that the established system complies in material respects with the European Commission's requirements.

The report was presented to four committees of the Parliament. However, neither the Ministry of Finance nor the Parliament deemed it necessary to furnish the Parliament with a national declaration – which is done by The Netherlands, Sweden and other countries – that Estonia has used EU financial support in compliance with the established rules.

”Relevance of official statistics and efficiency of data collection”

The National Audit Office audited the activities of Statistics Estonia in the management of official statistical information in order to assess whether official statistics are relevant and usable for decision-making at the national level and how burdensome the collection of data for the production of statistics is for respondents. The audit covered the period from 2005 to 2006.

The NAO has found that the activities of Statistics Estonia do not ensure the shaping of the content of official statistics in such a manner as to meet the expectations and needs of Estonian users, which poses a serious threat to the relevance of official statistics. During the audit, the NAO conducted a

¹ Management and control system means an integrated set of measures to ensure reliable financial management of the structural funds, as well as a purposeful, lawful and justified payment of support. The management and control system should ensure a clear definition and division of tasks and the application of the principle of segregation of duties in the performance of those tasks.

survey among the statistics users in the public sector. The results of the survey showed that about 40 % of the respondents rather use regular departmental information to acquire data on Estonia. But only 24 % of them use national statistics on a regular basis.

Furthermore, the completed audit revealed that the Statistics Estonia has not arranged the collection of data necessary for compiling national statistics in the most effective manner, thus creating an excessive administrative burden for the citizens, authorities and businesses. The Statistics Estonia has analysed (incl. documented) the composition and quality of data for only 9 of the 160 databases entered in the Register of Databases.

In general, no-one in Estonia is assessing or managing the administrative burden which the state causes to the citizens, businesses and organisations by data collection (incl. for national statistics).

“The audit report of the NAO on the 2006 consolidated annual report of the state”

The NAO audited the annual accounts of the state and the report on the implementation of the state budget included in the consolidated annual report of the state as of 31.12.06 as well as the additional information on local governments, the public sector and the general government sector.

Whereas the NAO made two comments on the accuracy of the 2005 annual financial statements of the state and one comment on the regularity of transactions, the NAO did not make any comment on the accuracy of the 2006 financial statements, for the first time ever. The NAO was of the opinion that the annual report of the state for the fiscal year ended 31 December 2006 was accurate in all material respects and the economic transactions included in the sample had been carried out in accordance with the law. In 2005, the NAO made a comment because the administrative agencies had acted in conflict with the State Budget Act and engaged in financial lease transactions; moreover, upon auditing the 2006 financial statements the NAO also discovered financial lease transactions. However, the NAO regarded the relevant provisions of the Act as ambiguous and advised the Ministry of Finance to analyse the need for amending the Act.

Observations were made on irregularities in accounting for forest as a biological asset, taking physical counts of and accounting for the state’s inventories and tangible fixed assets, accounting for and making an inventory of claims, and recording of real estate investments; also an improper recording of expenses was pointed out.

Audits of the annual reports of constitutional institutions

Opinions on the annual reports of the constitutional institutions (Office of the President, Chancellery of the Parliament, Supreme Court and Office of the Chancellor of Justice) state that the annual reports are accurate in material respect and the majority of transactions have been carried out in accordance with the law.

Miscellaneous work

With regard to the efficiency of land tax collection, Audit Department I analysed the current situation and sent a letter to the Ministers of Finance and of the Environment with a recommendation to improve the management of land taxes.

Audit Department I along with the other departments of the National Audit Office analysed the performance of duties specified in the working plan of the government, including reasons for a frequent failure to adhere to the deadlines set forth in the working plan, as well as the practices of the ministries for an enhanced accomplishment of tasks. The work initially schemed as an audit finally shrank into an in-house report, because it was difficult to make generalized recommendations on the basis of the findings. Feedback was given to the ministries concerning the projects included in the sample.

In cooperation with the e-Governance Academy, the report “Organisation of electronic document management in public administration” was completed and sent to the State Chancellery and the Ministry of Economic Affairs and Communications for giving an opinion. The report is intended to be publicized at the seminar on the issues and future prospects of the subject area, arranged together with the Minister of Regional Affairs.

Juhani Lemmik
Director of Audit, Audit Department I

1.3. Audit Department II

Audit Department II of the National Audit Office audits the Ministry of Justice, the Ministry of Defence and the Ministry of the Interior and the agencies in their area of government as well as the companies where the said ministries have majority ownership and the foundations where the said ministries exercise the rights of a founder member.

Audit Department II was composed of 14 positions, including a director of audit, 3 audit managers, 5 senior auditors and 5 auditors. At the beginning of 2007, nine of these positions were filled: a director of audit, 3 audit managers, 3 senior auditors and 2 auditors. During the year, the department recruited 5 new people, 3 of them to the positions of senior auditor and 2 to the positions of auditor. One auditor and 2 senior auditors left the department during the year. At the end of the year, 11 positions were filled.

The main objectives of the department were to lay the foundation for the practice of auditing the quality of public services in the Estonian information society and by the first audit really affect the provision of public services; to start the audit of the subject areas which have been beyond inspection so far and achieve the required discipline in those areas; to analyse and with the help of the analysis results and recommendations influence the emergency preparedness of Estonia.

The main internal (the so-called work) objective of the department was to create conditions for the conduct of quality audits that would have a positive impact on Estonia.

The second strategic internal objective was a well-functioning and cost effective monitoring and risk assessment system for the Ministries of Justice, of the Interior and of Defence, which was set up in 2006 and successfully elaborated and launched in 2007.

The third strategic departmental objective was to go beyond the so called pure financial audits (except for the audit of the accuracy of the consolidated annual reports and the regularity of transactions of the ministries, the methodology of which is prescribed by Audit Department I), by incorporating aspects of performance audit. The department has given up differentiating between financial and performance auditors; such attitude has been accepted and already successfully applied in first audits.

During 2007, two special projects were accomplished and 11 audits were completed (incl. those started earlier) with an audit report. As for the special projects and earlier-started audits, four were completed with another kind of report and two audits were excluded from the work plan either because of a lack of resources or a decision made after the preliminary survey that it would be more reasonable to spend the resources on other audits.

Four new audits and a special project were started at the end of 2007. 8 audits and one special project (e-Citizen Charter) are planned to be completed in 2008. The attainment of this aim is possible if the intended recruitment is a success and no impeding factors emerge.

Among other things, the department expressed an opinion on the amendments to the Authorized Public Accountants Act and the system of party funding, and examined the concept of financial management, the personnel policy in the border guard, etc.

Employees of Audit Department II have used the offered training opportunities. Great emphasis has been laid on professional development, further study of international standards (INTOSAI, IFAC's ISA) and improvement of field knowledge through departmental strategy seminars. Numerous seminars were organised for work on the NAO's manual.

Regular meetings are held with the internal auditors of the Ministries of Justice, of Defence and of the Interior to discuss both methodological and scheduling issues.

A number of changes took place already in the course of the audit "Quality of public services in the information society"; the attention of officials – far more than before – was directed to the functioning of internal control systems in the use of electronic databases and in observance of the principles of good administration. The most important of the changes is leadership in the process of e-Citizen Charter started as a result of the audit.

Important audit results

"Quality of public services in the information society"

Has the practice of making people run between authorities and submit unnecessary papers been discontinued?

The National Audit Office audited the quality of public services in 2007, analysing the compatibility of provision of these services with the principles of good administration. The principles of good administration require that people be burdened as little as possible in their relations with public authorities. Such a requirement has been explicitly expressed in the law for five years already: *administrative procedure shall be purposeful, efficient and straightforward and conducted without undue delay, avoiding superfluous costs and inconveniences to persons.*² Further, electronic records management has been equalized with written document management in Estonia. Hence, people in the information society should be able, where necessary, to exercise their rights or perform their obligations as conveniently as by reporting income through the Electronic Tax Board or performing transactions through the Internet banking system.

However, it should be stated on the basis of audit results that even though state and local government agencies have made efforts to implement the principles of good administration, the quality of public services which is required in the information society is not always guaranteed. If we want to maintain our country's fairly good ranking in the information society index, Estonia's e-government must truly set out to improve the quality of the public services supplied.

According to the data of Statistics Estonia, two-thirds of the Estonian population use the Internet and the Internet coverage area is virtually the entire territory of the country. Infrastructure has been developed for safe exchange of information and for reliable identification of persons via the Internet, hence also for the provision of e-services. The primary mandatory identity document of the inhabitants of Estonia is the ID card, which has been issued to more than one million people by now. The ID card enables persons to be identified electronically and documents to be signed digitally, which is equal to physical signing. This is the real potential and advantage of Estonia in the development of e-services!

To provide public services, administrative agencies can retrieve information from national databases, using electronic solutions, such as the X-Road data transport layer. Thus, prerequisites for improving the quality of public services have been created with the help of modern information and communications technology resources.

It is important for the state, local governments and taxpayers that the infrastructure created for the provision of e-services be easily used and that e-services be used in reality.

² Administrative Procedure Act, § 5 (2)

However, both research and audit findings reveal that in Estonia the tools and opportunities of e-government are used by a remarkably smaller share of population than could be presumed, given the conditions created. For example, according to the data of the Eurostat, only 29 % of people aged 16-74 years used the Internet last year for communication with public authorities. The responses to the questions of the NAO of the 25 local governments included in the audit sample indicated that of the total of 26,300 notices of residence submitted to them during 2006, only 350 or just a little more than 1 % had been submitted electronically. Of the nearly 16,000 notices of residence submitted to the Tallinn City Government, only 300 (a little less than 2 %) had been submitted through electronic channels.

Information concerning the provision of public services is generally available to people, but the information is far too often fragmented or incomplete, being located on different websites or containing links to outdated pages. Thus, provision of information is not based on the needs and interests of people; instead the obligation to publish information is being performed in ways that are more convenient for officials and that vary by state and local government agencies.

Fortunately positive changes have occurred – already in the course of audit and as a result of the observations and recommendations, the audited state and local government agencies improved the disclosure and accessibility of information on their websites. Also the portal www.eesti.ee has been renewed – the former Information Portal and the Citizen Portal have been drawn together into a central state portal with the views of the Citizen, the Entrepreneur and the Official.

We have found during the audit that in general it is possible to use digital signatures for requesting public services. However, the application forms are often missing from the websites of state agencies and local governments or it is difficult to complete them or save after completion. But it is necessary to save the completed application form in order to be able to submit it to a respective agency together with an affixed digital signature.

Instead of separately downloadable and completable forms, it would be highly reasonable to use electronic forms pre-filled with data retrieved by automatic queries for services of general interest. Electronic forms can be supported by the function of affixing a digital signature to the application. This would eliminate the need for separate installation of office software and the *DigiDoc* client programme in the computer. In ideal it should be sufficient for a citizen to have only a web browser in order to apply online for a public service.

Many administrative agencies continue to require the submission of paper documents even if the relevant information is actually contained in the databases and the agency would use the database information for decision-making anyway. The principle of good administration that disapproves of the practice of making people run between authorities means also, as seen by the NAO, that a citizen must not be used as "data carrier" – information should move from one agency/database to another via electronic channels, not on the paper in the citizen's hand!

Even if an agency has created opportunities for electronic administration, there are often just a few users of that opportunity. The reason may lie in both the lack of knowledge of one's rights and possibilities and the inconvenience of using e-services. For example we found that, as a rule, administrative acts cannot be obtained in electronic format and with digital signatures from administrative agencies. Moreover, application forms lack a space where such a request could be indicated.

In the opinion of the NAO, the problem of uneven quality of services could be mitigated and the overall quality level could be raised with the help of recommendatory guidelines concerning the availability of information on public services on agencies' websites and the development of model solutions for local governments.

Upon imposing obligations on local governments, the state should also make available the information systems that are necessary for performance of such duties so as to ensure consistent quality. It is

important to involve local governments and their representative bodies in the development of those information systems. This will ensure that a tool indeed meets the needs of the prospective user.

The audit of the quality of public services partially serves as continuation of the audit "State support to local governments in developing the information society", a summary of which was published in the previous IT yearbook³. The message underlying both audit reports is the same: attending to the problems and challenges of the information society is beyond the reach of the majority of local governments. Local governments need support from the state, but this support should not always or exclusively consist in the allocation of resources. In order to improve the quality of public services provided by local governments via the Internet, it is essential to provide guidance and counselling to municipal officials, which can be done by the state through a relevant competence centre and its county-wide network. Such an information society competence centre for local government is currently in the set-up process at the Ministry of the Interior.

"Revaluation of the immovable property of county governments and its necessity for principal activity"

During the last 10 to 15 years, both private companies and public sector entities have undertaken the (re)valuation of fixed assets in order to correct past deficiencies in accounting and take into account the effects of inflation which occurred in the late 1980s and early 1990s. Administrative agencies had to revalue their fixed assets by 31 December 2005 at latest.

The aim of the audit was to assess whether the buildings belonging to county governments and institutions in their area of government (hereinafter county buildings) had been recorded in the books at fair value as of 2006 (i.e. whether and how the buildings had been reappraised and the respective data recorded in the books). Further, another purpose of the audit was to find out whether these buildings were needed for the principal activity of county governments and the institutions in their area of government (i.e. for what purposes the buildings were used and whether their preservation was ensured).

According to the NAO, the county buildings have not been recorded in the books at fair value in material respect and many county buildings are not needed for principal activity. Due to incorrect data the financial statements fail to give a true and reliable view of the assets of county governments.

About 40 % of county buildings are not used for principal activity or any public purposes. Over half of these buildings have been rented out (in many cases at rates lower than the market price) but the rest remain idle.

The buildings used for the principal activity of county governments and institutions in their area of government or for other public purposes and the technical systems of those buildings are in a condition good enough to secure the preservation and long-term exploitation of such buildings. However, preservation of the main structures of vacant and idle buildings has not been guaranteed and the poor state of technical systems in these buildings increases overall maintenance costs. Funds are appropriated from the state budget only for principal activity, and the rental income that could be used for a partial refund of expenses incurred for the management and maintenance of buildings which are rented out and not needed for principal activity has to be transferred to the state budget.

The NAO is of the opinion that the buildings and residential premises rented out by county governments fail to serve the purpose of profit-making. The audit revealed that the rentals for such buildings and premises were on average 77 % lower than market rent values.

³ <http://www.riso.ee/et/pub/2006it/?mn=48&prnt=47>

”Organisation of accounting and economic activities in the Reconnaissance Battalion” (CLASSIFIED)

The NAO has presented the audit findings to different committees of the Parliament and attended a series of important high-level meetings. Follow-up activities (attendance at meetings in the Parliament, continued counselling of relevant officials, etc) are continued in regard to the draft Organisation of the Defence Forces Act. At the moment the audit’s impact on the refinement of the content of the draft Act is noticeable. The Commander of the Defence Forces immediately ended all violations within his capacity.

”Emergency preparedness of Estonia”

The National Audit Office evaluated Estonia’s preparedness for emergencies resulting from bird flu, an influenza pandemic, or extensive marine pollution and transportation accidents involving dangerous chemicals and found that little sense of responsibility and its dispersion between the ministries weakens even more the relatively poor preparedness of the country to resolve emergencies quickly and efficiently.

The audit revealed that in spite of the commendable efforts of the ministries, emergencies cannot be prevented and resolved efficiently today. Therefore emergency prevention as well as preparations for an emergency require considerably more attention and resources.

Preparedness is much better for emergencies (e.g. bird flu and influenza pandemic) in the case of which responsibility for performance of tasks necessary for achieving emergency preparedness has been specified in special legal acts and in the case of which the preparedness plans have been made in accordance with the requirements of the European Commission.

The main problem with other emergencies (e.g. extensive marine pollution and transportation accident involving dangerous chemicals) is that no head ministry has been appointed who would be responsible for emergency preparedness and emergency response activities. If responsibility is shared between several ministries and none of these has the obligation to manage the process, the creation of a comprehensive contingency plan, division of roles and joint procurement of resources are aggravated.

The recommendations of the National Audit Office pertain mostly to improving emergency preparedness by making additions to the Emergency Preparedness Act, the Infectious Animal Disease Control Act, the Communicable Diseases Prevention and Control Act; carrying out comprehensive risk assessment and preparing a contingency plan; obtaining missing but required resources and conducting training events and exercises.

The NAO considers it to be positive that the ministries set to take action on reported shortcomings already during the audit. In order to solve the problems, the Ministry of the Interior drew up a concept for changing the legal bases for crisis management and formed an interministerial task force which should prepare the draft for the Emergency Preparedness Act Amendment Act and its derivative acts.

The National Audit Office hopes to contribute to improving emergency preparedness as an aspect of internal security with its recommendations made as a result of the audit.

”Regularity of economic transactions and organisation of accounting in the Defence League”

The aim of the audit was to evaluate the economic activities of the Estonian Defence League in 2005, focusing on the organisation of accounting, the accuracy and regularity of recording economic transactions, relation of economic actions to the main objectives of activity, and the functioning of internal control systems. The regularity of transactions and protection of state secret were evaluated also for the years 2004 and 2006.

Although the organisation of accounting in the Defence League has been continuously improved, the NAO has found deficiencies which may lead to material errors in financial statements. As for the regularity of economic transactions, major shortcomings were identified in the activities of SA Kaitseliidu Kinnisvara. The issue of ownership of immovable property in the possession of the Defence League has not been resolved. Unclear division of roles and rigid relationships occasionally found in the area of government of the Ministry of Defence hinder cooperation between the Ministry of Defence, the General Staff of the Defence Forces and the Defence League also in the field of real property.

The Minister of Defence agreed with the conclusions and proposals made in the audit report and assured that cooperation between the Ministry of Defence and the Defence League had improved in the field of real property and many of the identified deficiencies had been or were being remedied.

In his response letter, the Commander of the Defence League made explanations of several paragraphs in the draft report and assured that the deficiencies and errors identified during the audit were systematically addressed.

Ülle Madise
Director of Audit, Audit Department II

1.4. Audit Department III

Audit Department III audits the area of government of the Ministry of Education and Research, the Ministry of Culture and the Ministry of Social Affairs. The expenditures in the area of government of the three ministries account for a little more than half of the total state budget expenditure. The biggest amounts are expended for health insurance and payment of pensions in the area of government of the Ministry of Social Affairs. The area of government of these ministries comprises several foundations and legal persons in public law that have been founded by the government.

As of the end of 2007, the department employed 16 officials: 12 auditors or senior auditors, 3 audit managers and a director of audit. Four officials took maternity leave during the year. Two officials left and three new officials were recruited by the department during the year. One official was on a long-term foreign training programme organised by the supreme audit institution of the United States.

Audit managers and auditors specialize in either financial or performance audits. All auditors have their own monitoring area where they follow up on changes, incl. implementation of recommendations made in the course of previous audits. They also monitor the drafting of legislation relating to the area of responsibility of the department and where necessary, make proposals on additions to legislative acts on the basis of previous audit results and follow-up.

In 2007, altogether 21 audits were undertaken, 10 of them were accomplished. Half of the completed audits were financial (compliance) audits. Three of them dealt with the organization of accounting and legality of transactions of the ministries in 2006 and were carried out with the purpose of providing an opinion, on the NAO level, on the consolidated annual report of the state. The other two completed audits evaluated the economic activity of legal persons in public law (audits of the economic activities of Tallinn University of Technology and of the Estonian National Opera).

The completed performance audits focused on the evaluation of effectiveness in the areas of general interest (compulsory school attendance and efficiency of its enforcement, activities of the state in reducing workplace accidents, state supervision over health care providers) or arrangements for the safeguarding of assets important for the entire country (protection of cultural monuments).

In the course of the audit "Quality of public services in the information society" conducted in cooperation with other departments, public services in the Social Insurance Board and the Labour Market Board were analysed. Family benefits/parental allowance, survivor's pension and write-offs of study loans upon the birth of a child were scrutinized in the Social Insurance Board. Registration as unemployed and granting of unemployment allowances were examined in the Labour Market Board.

In cooperation with different departments, the performance of tasks assigned by the Government of the Republic was analysed in the ministries. This concerned several projects in the Ministry of Education and Research (funding of municipal schools, development of the general education curriculum, development of human resources, knowledge-based Estonia).

On the basis of audits of the economic activities of three universities acting as legal persons in public law, a generalisation was made and sent to the Minister of Education and Research with a letter signed by the Auditor General. The generalisation concerned the following issues: government-commissioned education and its cost, student places set up by the universities themselves or partially charged for, cost of student places in non-government-commissioned education, lending of fixed assets, loan activities and securities transactions of universities, supervision of the Ministry of Education and Research over the activity of universities acting as legal persons in public law.

All audit reports were forwarded to the State Budget Control Select Committee of the Parliament. In several cases, the standing committees of the Parliament were informed of the results of the completed audit, and those committees organized discussions of audit results where necessary. The Cultural Affairs Committee of the Parliament thoroughly discussed the results of audits of the protection of

cultural monuments and of enforcement of compulsory school attendance and the efficiency of such enforcement.

The reports drawn up as audit results contain a lot of proposals for the elimination of shortcomings, improvement of control systems and enhancement of activity. In most cases, these proposals have been implemented excellently. However, it should be admitted that implementation of some proposals may take more time.

Four chapters were compiled for the overview of the use and preservation of state assets submitted to the Parliament each year: compulsory school attendance, preservation of cultural monuments, preservation of museum assets, and the rehabilitative treatment and rehabilitation services for people with disabilities.

Audit manager Külli Nõmm represented the National Audit Office of Estonia in the meetings of the INTOSAI Working Group on the Audit of Privatisation. Representatives of the department participated in the working groups preparing topics for the EUROSAI regular congress held in the summer of 2008 (devoted to audits of educational and social sectors).

Important audit results

”Protection of cultural monuments”

The audit revealed that the state has not done enough to meet its constitutional obligation to ensure the preservation of cultural heritage.

Part of valuable cultural heritage has still not been placed under protection, while monument status is enjoyed by other objects and sites which do not deserve it. This is because little basic or field research has been carried out and the inventories of monuments created in the Soviet era have in part been automatically accepted.

Much of the required data have not been entered in the state register of cultural monuments, therefore it is impossible to obtain an up-dated and all-inclusive overview of the condition of monuments.

Many owners are not fully informed of their rights or responsibilities. It appeared from the survey of the owners of architectural monuments that 17 % of them were completely unaware of their ownership status; 47 % were not aware of their responsibilities as owner of a monument. The essence of the problem is the fact that the National Heritage Board has failed to meet the obligations imposed by the law: by the end of 2006, only about 60 % of monument owners had received notification of protection obligations, virtually no such notification had been made to the owners of the protected zones around the monuments; the majority of the monuments did not have proper marking.

Allocation of support to monument owners is not transparent. The priorities for the distribution of monies have not been disclosed and many owners have not been informed of the possibility of applying for support.

Reliable information about the condition and inspection of a considerable number of monuments was not available. According to the data of the register of cultural monuments, only 27 % of all monuments had been inspected as of February 2007.

The Minister of Culture and the Director General of the National Heritage Board have promised to attend to the elimination of shortcomings highlighted in the audit report. The National Heritage Board has approved a new strategic development plan for 2008–2011, in which attention is paid to most of the weaknesses pointed out by the National Audit Office and shortly activities are planned along with the needs underlined in the audit report.

”Compulsory school attendance and efficiency of its enforcement”

It appeared from the audit that the Ministry of Education and Research lacks a clear overview of compulsory school attendance. The state does not have consistent data for monitoring non-attendance and thus there is no overview of problematic and non-attending pupils. The definition of non-attendance and duties of different parties regarding compulsory school attendance have still not been specified.

The analysis of the NAO showed that over 3800 children who must attend school according to the data of the population register are not on the pupil list of any schools and the reason for their non-attendance is unknown. It appeared during control that the state had paid child benefit to 1438 of those children.

Absence from classes has not decreased. Approximately 2 % of pupils (i.e. 3100 pupils) missed more than 20 % of classes for no valid excusable reason, which means that these children are on the list of a school but they actually do not comply with compulsory school attendance requirement. On average, each pupil was absent from school for three weeks per academic year, of which one week is inexcusable absences.

Many pupils have problems with making progress in their studies and the number of pupils who discontinue studies remains high. Most serious problems occur with pupils at the third stage of study (forms 7 to 9) where nearly one fifth of pupils receive failing quarter grades and over 7 % of pupils receive failing grades at the end of the school year.

Ever more measures are taken to improve school attendance. In 2007, about 2.5 times more resources were allocated for implementation of various measures compared with 2003. Although different measures have been implemented more extensively over the years, the indicators for compulsory school attendance (withdrawal and absence rates) have not improved. Hence, the activity of the state in enforcement of compulsory school attendance cannot be considered effective. The government annually spends over 120 million kroons on measures whose overall efficiency is not evaluated.

In his response to the National Audit Office, the Minister of Education and Research promised to improve keeping a record of children who must meet compulsory school attendance requirement as well as collection of data on school attendance indicators and on action taken to ensure that all pupils arrive at school and participate in studies to the required extent. The Ministry is preparing amendments to the Basic School and Upper Secondary School Act which clarify the responsibilities of schools and local governments in the provision of support measures.

”Activities of the state in reducing accidents at work”

As the result of the audit, the National Audit Office has come to the conclusion that the state has not done everything necessary to ensure a safe work environment for the people in Estonia.

The state has no reliable data on workplace accidents and occupational diseases. We do know the number of reported accidents and patients, but different analyses show that this number cannot be taken as true. The system established by the state does not motivate employers or employees to report of accidents at work or occupational ill health. Rigidity of diagnosing inhibits the recognition of possible occupational diseases. The state lacks a common strategy for creating a safe work environment.

Insurance against work-related accidents and occupational diseases has not been provided so far. The introduction of the insurance system has been topical for over 10 years but still without effect. A well-functioning insurance system would motivate the labour market parties to, on the one hand, make the work environment safer and on the other hand, report of workplace accidents and incidents of occupational ill health.

Prevention has not received adequate attention so far. Prevention is viewed primarily as part of supervision; little has been done in respect of systematic training, counselling and informing.

There is not sufficient information available for supervision planning. A requisite for a better planning of supervision would be statistics on workplace accidents and (occupational) diseases and an in-depth analysis of the supervision outcomes, which are deficient so far.

Execution of precepts issued during supervision activities is not followed up far too often. Information from employers that the precepts have been observed is often considered to be enough although the reality may be that the work environment has not become any safer.

The Minister of Social Affairs and the Deputy Director General of the Labour Inspectorate agreed with the proposals made and notified the NAO of the intended action. By today several changes have been instituted.

”State supervision over health care providers”

The risk assessment on which the supervision is based is inadequate. The areas to be supervised are selected at random and it is unclear what kind of inspection outcome is expected.

Too much supervision is oriented to the formal aspects of health services; that is why the nature of supervision is mostly responsive to problems, not pro-active. Supervision without purpose is a needless burden to service providers in addition to their principal activity.

Supervision does not adequately evaluate the internal quality of health care. Too much focus is on the measurement of inputs (compliance with infrastructure and staff requirements) whereas the output (result) of the work of health care providers is measured too little. However, the overall trend in the world is towards an output-oriented approach to supervision.

The work of supervisory authorities is not coordinated. This has brought about a situation where the Health Care Board, the Estonian Health Insurance Fund and the county governor may inspect a general practitioner three times for the same subject. There is no cooperation in supervision planning or the subsequent sharing of results.

The Minister of Social Affairs, the Director General of the Health Care Board and the Chairman of the Board of the Estonian Health Insurance Fund agreed with the proposals made and reported of the measures taken.

”Economic activities of Tallinn University of Technology”

As the result of the audit, the National Audit Office has come to the conclusion that the economic activities of Tallinn University of Technology (TUT) are well managed in the main. However, several observations imply that the internal control system does not function properly enough to ensure true and reliable accounting for and preservation of tangible assets, or an expedient and lawful expenditure of funds.

The TUT has failed to reappraise a big part of its fixed assets to fair values. Expert assessment was requested for the determination of the fair value of buildings subject to revaluation, but in the books the said buildings were recorded at a cost several times lower than the fair value. There is not sufficient written evidence or management’s justification for changing the value proposed by the expert.

The University does not have consolidated written data about how much of the fixed assets are used by the university for its own needs and how many assets are rented out to other persons (incl. equipment and apparatus) and how much space is vacant. In many cases the TUT has not organised public tenders for renting out the premises. Some of the rental contracts have been concluded on terms

that are unfavourable to the university; in some cases the opportunity to raise the rental amounts set in earlier contracts has been missed.

The university has occasionally failed to organise public procurement, in this way violating the provisions of the Public Procurement Act; in some cases the good procurement practices have not been observed, and negotiations with at least three bidders have not been held in respect of public procurement where the estimated cost of the public contract without value added tax is lower than the threshold provided for in the Public Procurement Act.

The internal control system of the university is not in place; the system should ensure true and reliable accounting for and preservation of cash as well as the entry in the books of all bank transactions in a timely and comprehensive manner. For instance, some structural units failed to submit the cash sales reports by deadline or to pay the receipts from the previous period to the university's petty cash fund.

On several occasions, the requirements laid down in the Accounting Act, good accounting practices, the general rules for governmental accounting and the university's internal accounting policies have not been met for accounting for operating expenses. Thus, the amounts that should have been classified as advance payments were recorded as expense in several cases. Moreover, in many cases assets to be recorded as fixed assets were expended.

The National Audit Office has made several recommendations in the draft audit report to the Supervisory Board and the Rector of the University for improvements in financial management and accounting. The Supervisory Board discussed at its meeting the draft audit report and adopted a decision on a plan of action for the elimination of deficiencies. In its response the university agreed with all recommendations made by the NAO.

"Economic activities of the National Opera"

As a result of auditing the economic activities of the Estonian National Opera, the National Audit Office found that the organisation of economic activities of the National Opera needs improvement, because the internal control system that should ensure the regularity of transactions and true and reliable accounting for tangible assets does not function adequately.

The National Opera has adopted two different approaches for the disclosure of contracts concluded with sponsors, supporters and cooperation partners. Part of transactions made under these contracts have been viewed as exchange of services and in accordance with good accounting practices, revenue from those exchanges has been recognized at the fair value of the products or services received. However, services received under some contracts have not been recorded as revenue at fair value. This may lead to errors in financial statements. Financial statements so prepared do not present the actual amounts of revenue and expenditure.

Upon the organisation of public procurement, the provisions of the Public Procurement Act have not been respected in several cases. On one occasion a public contract was concluded on terms different from those indicated in the invitation-to-tender documents. On one occasion the procurement was divided into parts so as to evade the public procurement tender procedure. On several occasions negotiations with at least three bidders were not held for the purchase of goods or services, when the cost of such goods or services was lower than the threshold set to public procurement and there were many bidders.

There were errors in the recording of foreign currency transactions, timing of revenue and expense recognition, accounting for fixed assets, refund and write-off of study loans. The internal control system has failed to function in the payment of compensation for the use of a personal car, accounting for construction materials, and consistent numeration of sales invoices. Some of the buildings and two structures had not been recorded in the books of the National Opera.

The Statutes of the National Opera, as approved by the Supervisory Board, provide for the possibility of having holdings in companies, although the law permits the National Opera to establish only a foundation to support its activities.

The Supervisory Board of the National Opera discussed at its meeting the NAO's draft audit report and approved the plan of action for elimination of deficiencies submitted by the Director General. According to the response, the Supervisory Board will pay more attention in the future to the strengthening and improvement of internal controls.

"Accuracy of the 2006 annual financial report and regularity of transactions of the Ministry of Education and Research"

The audit revealed cases where inventories were made inadequately or accounting data had not been adjusted according to inventory data; some fixed asset items were not recognised in the accounts, and some items were inadequately classified as real estate investments, etc.

On 4 July 2006, the Minister of Education and Research concluded an agreement with the Royal Danish Navy for the purchase of a mine hunter for the Estonian Maritime Academy for 6.6 million kroons. However, funds for such an acquisition had not been appropriated to the Ministry in the 2006 State Budget Act; moreover, no funds to this end had been appropriated in the 2007 state budget either. No public procurement was organised for the purchase of the vessel.

The agencies in the area of government of the Ministry have failed to comply with the Public Procurement Act on several occasions. In some cases, the public procurement procedures had not been applied for the purchase of products and services although their annual cost exceeded the limit specified in the Public Procurement Act. In some cases comparable price offers from at least 3 bidders were not invited.

For the elimination of shortcomings, the NAO advised the Minister of Education and Research to require observance of the established accounting principles and internal control systems from the agencies in the area of government of the Ministry, in order to ensure the preservation of and a true and comprehensive accounting for fixed assets. The NAO also advised the Minister to resolve as quickly as possible the issue of payment for the vessel bought from Denmark to cut the expenses incurred to the government in respect of overdue charges. The Minister agreed with the proposals made.

"Accuracy of the 2006 annual financial report and regularity of transactions of the Ministry of Culture"

There were cases when the requirements of the general rules for governmental accounting or of the internal accounting policies in the area of government of the Ministry were not met for taking inventory, part of fixed assets had not been recorded in the books, etc. In capitalizing the cost of construction-in-progress, some agencies in the area of government rely on the purpose of funds as indicated in the budget, not the economic nature of expenses.

On some occasions the provisions of the Public Procurement Act were not respected. Goods and services, whose annual cost exceeded the threshold established by the Act, have been purchased without the organisation of public procurement.

In order to eliminate the shortcomings, the NAO recommended the Minister of Culture to improve the internal audit system and demand adherence to the established procedures to ensure correct accounting of the assets, and organise the data in the state assets register. The Minister has proposed measures for correction of deficiencies.

”Accuracy of the 2006 annual financial report and regularity of transactions of the Ministry of Social Affairs”

It has appeared that part of immovable property has not been reappraised to its fair value and part of it has been classified as investment property.

There were occasions where inventory taking was incomplete or physical inventory data had not been reconciled with accounting records.

The state budget funds have not been used purposefully and economically in several cases. Undue advance payments have been made and several expenses have been incurred on the account of funds appropriated for other purposes. In some cases, medicines were purchased in excessive batches and they expired prior to distribution to patients.

For the elimination of shortcomings, the NAO advised the Minister of Social Affairs to require that the officials of the Ministry and of agencies in the area of government of the Ministry observe the established accounting principles and the internal control systems in order to ensure the preservation of and true and comprehensive accounting for fixed assets and correct the data in the state assets register. The Minister agreed with the proposals made.

Jüri Kõrge
Director of Audit, Audit Department III

1.5. Audit Department IV

Audit Department IV audits the Ministry of the Environment, the Ministry of Agriculture and the Ministry of Economic Affairs and Communications and the administrative agencies in their area of government, as well as legal persons in public law and foundations where the rights of a founder member or a member are exercised by the abovementioned ministries. The department also audits companies in which the ministers directing the said ministries must represent the government in the exercise of the state's majority interest in the said companies.

The auditees of the Department also include the foundation Environmental Investment Centre, whose rights of a founder are exercised by the Ministry of Finance.

In 2007, there were 19 positions in Audit Department IV: a director of audit, 3 audit managers, 4 senior auditors, 11 auditors. At the beginning of 2007, the department employed 14 people: a director of audit, 2 audit managers, 2 senior auditors, 9 auditors. During the year, the department recruited one audit manager and 3 auditors. One senior auditor and 3 auditors left the department during the year. At the end of the year, the positions of 3 senior auditors and 2 auditors were unfilled.

In 2007, the department paid most attention to the preparation of major environmental projects funded by the European Union and the audit of the effectiveness of agricultural refunds. The audit reports "Development of waste water treatment in rural areas with the support of the Cohesion Fund's projects" and "Effectiveness of support granted for the development of agricultural production" were completed. Through the audits the attention of the government is drawn to deficiencies in using EU financial support and recommendations are made for avoiding irregularities in implementation of the national strategy for the use of EU structural instruments started in 2007.

The department also focused on the evaluation of management of state companies and foundations so as to answer the question whether supervision exercised by the owner and the founder over such companies had been organised in a purposeful and efficient manner. The activities of the ministers in administering the holding and exercising the rights of a founder member as well as the supervisory activities of the supervisory boards of the companies and foundations were audited.

During the year, 12 new audits were started and 11 audits were completed with an audit report. 3 of the completed audits were financial audits and 8 were performance audits. 3 audits were excluded from the work plan. In addition to audit procedures, the department compiled two sections – "Biological assets" and "State participation in companies" – for the overview of the use and preservation of state assets which was submitted to the Parliament by the Auditor General.

Last year the employees of the department improved their knowledge in several international training programmes, and they also participated in international events. Environmental auditors took part in the international training programme "Environmental audit" put on by the Indian Supreme Audit Institution; the EUROSAI seminar on "Nature protection in the context of EU environmental legislation" in Trier; and the EUROSAI conference in Bratislava.

The employees of Audit Department IV helped prepare the establishment of the WGEA Secretariat at the National Audit Office, participating in the discussions on the new WGEA work plan at the NAO and in the meeting of the steering committee of the INTOSAI Working Group on Environmental Audit in Capetown. The manager of the audit "Activity of the state in addressing the issues concerning oilseed rape and bio diesel" participated in the meeting of the INTOSAI WGEA in Tanzania and made a presentation on the audit outputs.

Important audit results

”Development of waste water treatment in rural areas with the support of the Cohesion Fund’s projects“

The audit showed that Estonia is unable to ensure sufficient waste water treatment in all settlements by the year 2010, which may result in infringement proceedings by the European Union. Further, according to the NAO, the management of waste water treatment systems set up with the support of the Cohesion Fund will not guarantee the sustainability of the sector, as not all costs have been taken into consideration in determining the price of water and sewerage services.

Moreover, the audit identified several problems with the financial analyses of projects and their technological solutions as well as with the involvement of local governments in waste water projects.

The audit report has been discussed by the Environment Committee and the State Budget Control Select Committee of the Parliament and as the result of the audit, opportunities are sought for using the funds for water management projects in 2007-2013 in a more cost-effective manner.

”Effectiveness of support granted for the development of agricultural production“

The audit showed that support for agricultural and rural development does not enhance the competitiveness of agricultural producers to an extent that would ensure their sustainable existence. According to an expert opinion, about 70 % of currently active agricultural holdings will face serious problems in the coming years. Only one fifth of all professional producers would survive if support was cut.

The Ministry of Agriculture, who is responsible for creating conditions for a sustainable and diversified rural development, has so far failed to shape rural life in an integrated fashion. Regardless of the dozens of sectoral programmes currently available on the development of rural life, they are not properly interrelated; therefore the overall effect of measures schemed by the government for the socio-economic development of rural areas cannot be evaluated as a whole.

The audit was discussed at the joint meeting of the State Budget Control Select Committee and the Rural Affairs Committee. The committees decided to arrange for another meeting in November 2008 in order to keep track of the progress in the implementation of the rural development plan. It was also considered important to tighten cooperation between the Ministry of Agriculture and the Office of the Minister for Regional Affairs.

”Planning of forest cutting in the State Forest Management Centre”

The audit uncovered that there were no consistent and reliable data available in the country as to how much state forest is left, how much forest has been cut and how much forest would be reasonable to cut in the future. Accurate and transparent accounting is required to enable the Parliament, the Government and the Ministry of the Environment to adopt, on the basis of reliable data, strategic decisions on state forest and to exercise supervision over the activity of the State Forest Management Centre (RMK).

Further, the audit revealed several administrative and organisational problems in the management of state forests with regard to forest cutting plans, communication of information and compliance with forest legislation.

Driven by the NAO audit, the Ministry of the Environment and the international organisation NEPCo carried out a number of extraordinary audits in RMK. In the course of the audit by the Ministry of the Environment, serious infringements and risks were identified in the activity of RMK, which are detrimental to the reliability of state forest management. The NEPCo pointed out in its report that RMK lacked a monitoring system that would objectively check and analyse correspondence between

actual and planned harvests and that would serve as a basis for evaluation of the sustainability of management.

As the result of audit, RMK has set to improve the internal control systems for state forest management as well as the system of harvest monitoring.

”Owner supervision in public undertakings and foundations”

The audit revealed material deficiencies in the organisation of supervision which deprives the NAO of the assurance that the administration and supervision of public undertakings has been organised in a purposeful and effective manner.

The audit identified the main problems in the direction and supervision of state companies and state foundations: there is no common, harmonized and disclosed holding policy; the activity of ministers in directing state companies and foundations is not transparent; supervision of the supervisory boards over the management boards is inconsistent and the requirement of setting up audit committees has not proven to be justified.

The reason for shortcomings in the administration of state companies and foundations is that the Participation in Legal Persons in Private Law by the State Act and the legislation enacted on its basis, do not specify the purpose of administration or establish clearly and with sufficient detail the role and tasks of the concerned parties.

The audit report has been repeatedly highlighted in the parliamentary debates on the issues concerning the administration of state companies.

”Construction activities in shoreline areas”

Public and private interests have not been balanced on the shores of the sea and inland water bodies under heavy building boom pressure. According to the NAO, the essential problems are the lack of long-term spatial development planning and construction supervision in local governments, which should take account of general interests, therefore it may appear one day that, instead of coastal reed bed, the seaside is filled with a row of houses, many kilometres long, and access to the sea is denied.

The audit report has been discussed twice by the State Budget Control Select Committee. The committee underlined the need for resolving the issues raised in the audit report in collaboration between the Ministry of Economic Affairs and Communications, the Ministry of the Environment and the Ministry of the Interior. The representatives of all the three ministries confirmed to the committee that the audit proposals were feasible.

”Effectiency of the organisation of environmental monitoring”

According to the NAO, the planning of environmental monitoring is not based on environmental problems, which complicates interpreting and using the results. Monitoring is not planned in a longer perspective; opportunities to organise monitoring in a more expedient way have not been used, for instance monitor slow environmental changes at an interval of several years. It appeared in the course of the audit that so far no long-term monitoring programme had been prepared, as required by the Environmental Monitoring Act. The Minister of the Environment approves the national environmental monitoring subprograms, their budgets and implementers annually on the basis of applications.

”Organisation of animal waste management in Estonia“

The audit revealed that the infrastructure established by the state has not been created with consideration to the aim of disposing of animal waste. Although the state has spent almost 100 million kroons on the building of a plant for animal waste management, this does not offer solutions for proper

incineration of treatment residues. Thus, harmless disposal of plant residues (meat-and-bone meal, technical fat) has not been guaranteed. The capacity of the state-owned plant for animal waste management has been exhausted by now and in case of increase in waste amounts or a longer breakdown of the plant there is virtually no other possibility of disposing of animal waste in a required manner.

The audit report was discussed by the Rural Affairs Committee and the State Budget Control Select Committee. The Select Committee decided that the Ministry of Agriculture must consider, together with the Ministry of the Environment, the set-up of at least two legally conforming landfills where animal waste could be buried in cases of emergency. The necessity to establish a plant competing with the Väike-Maarja waste management plant should be considered, as the capacity of the state-owned plant has been exhausted by now and in case of increase in waste amounts or a breakdown of the plant there is no other possibility in Estonia of a safe disposal of waste. It was also found that the Ministry of Agriculture should seek opportunities for the liquidation of by-products not conforming to quality requirements (meat-and-bone meal and fat).

”Establishment of the South Estonian hazardous waste collection centre “

According to the National Audit Office, the South Estonian hazardous waste collection centre, the cost of which was 23.2 million kroons, was not established in the manner and on terms being the most favourable for the state, as the collection centre has been built on the registered immovable property of another person and the terms and conditions of the building lease do not favour the state. The Ministry of the Environment and the Information and Technology Centre (ITC) did not consider with more detail other options for the establishment of the collection centre, for instance building the centre on a state-owned land or finding an entrepreneur to build the centre.

The State Budget Control Select Committee discussed the report and came to the conclusion that the process was not correct or transparent from beginning to end. The state’s interests are not well represented or protected and there is the impression that the state has built a plant for hazardous waste management for a certain private company. However, the committee hopes that such cases are avoided in the future.

The committee’s suggestion to the responsible official in the Ministry of the Environment: along with the conclusion of a rental contract between the Ministry of the Environment and AS Epler&Lorenzi, initiate an amendment to the building lease in order to better protect public interest.

Tarmo Olgo
Director of Audit, Department IV

1.6. Audit Department V

Audit Department V examines the regularity of activities of local government authorities and of the foundations and non-profit organisations founded by them, where the local government exercises the rights of a member as well as in companies where the local government owns a majority interest. The regularity and effectiveness of the use of state assets transferred to the ownership of local government, of special purpose support funded through the state budget, and of the funds appropriated for the performance of official duties are also audited.

17 positions have been set up in Audit Department V: a director of audit, 3 audit managers, 5 senior auditors, 7 auditors and a junior auditor. At the beginning of 2007, 14 of these positions were filled: a director of audit, 3 audit managers, 3 senior auditors, 7 auditors and a junior auditor. During 2007, two senior auditors were recruited by the department. Five employees left the department during the year: the director of audit, 2 audit managers, one auditor and one junior auditor. At the end of the year, the unfilled positions were those of an audit manager, a senior auditor, 2 auditors and a junior auditor.

Two years have passed since the set-up of the department and thus it is hasty to talk about the achievement of major aims. In 2007, work was continued on promoting the activity of the department and identifying the main problems facing the local government and developing the department's strategy on the basis of those problems. Auditors' professional proficiency was enhanced, so that they can conduct more substantial audits of the activities of municipalities; an approach most suitable for local government audits, including the amount of resources in terms of time, was being selected from among the existing audit techniques and methodologies. Auditors' knowledge of local government business and audit theory, their skills and experience were significantly improved.

The main area of concern continues to be the recruitment of auditors who are knowledgeable in local government matters and the adjustment of audit work and methodology so as to take account of the peculiarities of local government.

In 2007, the so-called institutional audits referring to the study of the economic activities of local governments were started in 6 municipalities and 3 audits were accomplished, incl. 2 audits started in 2006. Audits covering a larger number (15–30) of municipalities (i.e. sectoral audits) were started on one occasion and 4 audits started in 2006 were completed. Further, the auditors of the department participated in two audits accomplished by the audit departments of the National Audit Office in 2007.

After the preliminary survey of the audit "Provision of regular domestic garbage collection services in municipalities" initially included in the work plan, it was decided that municipalities would be notified by a memorandum, because over half of the municipalities had not succeeded in publishing an invitation to tender for the garbage collection service.

In addition to auditing procedures, the department prepared a part of the overview of the use and preservation of state assets, which was submitted to the Parliament by the Auditor General. An opinion of the Auditor General on the draft Financial Management in Local Government Act was prepared for submission to the Ministry of Finance.

The department has regularly participated in meetings with municipal leaders and county associations of municipalities as well as with the directors and accountants of the municipal general education schools of Põlvamaa. The activities of the department as well as the findings of the completed sectoral audits have been introduced at those meetings (mostly the results of the audits of the 2005 annual financial reports of municipalities and of remuneration of teaching staff). The auditors of the department attended the training session concerning the auditing of EU funds organised by the European Court of Auditors in Luxembourg, where the high-level specialists in the field introduced the best practice of the ECA financial and performance audits, the audit methodology used and audit experience. The auditors also took part in follow-up training on financial management organised by

the EBS Executive Training Centre. The topic covered was financial audit from planning to audit report.

All auditors of the department actively participated in the compilation of the NAO audit manual, by discussing issues and suggesting changes to the working group. Separate training seminars were organised for increasing the efficiency and effectiveness of departmental activities and improving the monitoring of municipalities.

Owing to the audits conducted by the department the local government problems have deserved more attention from the state and the public. This is confirmed by the fact that the reported audit findings and the proposals made in the audit reports have been taken into account in the drafting of legislation relating to local government and they are referred in the explanatory notes to the legal drafts. All this proves that the audits of municipalities have highlighted the actual problems and weaknesses of local governments as well as their reasons.

The audits of the National Audit Office have enabled local governments to better sense that they are part of state authority, i.e. playing a role which involves higher demands on their activity and higher responsibility. Immediate contacts with both the politicians and officials of local government essentially contribute to such an effect.

The findings reported in the department's audits may be generalized across the 227 municipalities, as a rule. Given the audits that were or are conducted by Audit Department V and those for which the audit procedures were performed on site by the auditors of the department, the samples of the 2006 and 2007 audits comprised altogether 91 Estonian municipalities. This means that during the year and a half when the department has actually carried out audits, 40 % of the total 227 municipalities in Estonia have been inspected. Here should be added the municipalities that have been addressed by the departmental auditors in the course of audits performed by other audit departments should be added here.

We should not disregard the audits of the annual financial reports of municipalities and their impact on the improvement of the quality of financial reporting in local government, as each municipality has been sent a memorandum on irregularities in municipal financial statements together with the audit report.

Important audit results

”Organisation of internal control systems and accounting and the regularity of economic transactions in Hädemeeste Rural Municipality in 2004 and 2005”

There are shortcomings in the organisation of accounting in Hädemeeste Rural Municipality, which have led to material misstatements in financial statements. Economic transactions which are in conflict with the laws and local legal acts are a consequence of an inadequate system of internal control in the municipality. Transactions which are not in conformity with the municipal budget document have been carried out in Hädemeeste both in 2004 and 2005. The activities of the audit committee represent only a small part of the committee's legitimate control function, so being a major barrier to the proper functioning of the internal control system. Deviations from the procedure for the possession, use and disposal of municipal assets have been detected. The municipality has failed to enter in the books several assets, incl. municipal roads. In the performance of routine counts of municipal assets, both substantive and procedural deficiencies have been identified, which bring about misstatements in municipal accounts.

”Organisation of internal control systems and accounting and the regularity of economic transactions in the town of Mustvee”

The internal control system of the town of Mustvee needs considerable improvement. There are serious shortcomings in the organisation of accounting in the township, as the result of which the

municipal assets have not been fully reported in the financial statements. Legislative provisions have not always been respected in performance of economic transactions. The procedures regulating the organisation of work (municipal charter, the procedure for management of municipal assets, the internal accounting policies of the municipal government) are outdated and in conflict with legal acts. The requirements of relevant national and municipal laws have not been met for the use of budgetary funds (incl. the reserve fund), taking inventory, records management, disclosure of data and documents, etc. Supervision of the audit committee over the activities and the accuracy of accounts of the municipal government and the institutions administered by the latter has been insufficient. The municipal government has paid subsidies for the granting of which no procedure has been established by the municipal council.

”Compliance of annual reports for 2005 of local governments with the legislative provisions and the balance records”

For the NAO, it was the first audit where the annual reports of local governments (hereinafter “LGs”) were analysed and assessed exhaustively. None of the LGs’ annual reports for 2005 met the data presentation and format requirements. Inadequate and inaccurate annual financial reports arise from the nonchalant attitude of municipal governments to the performance of their duties; the public interest in such reports is almost inexistent. The LG does not have a sufficient number of officials who can draft a conforming annual report. The legislation governing the drafting of LG’s annual report is insufficient and/or controversial (i.e. ignore the LG's characteristics). The LGs are unaware of legislative amendments or unable to implement them. Some auditors who have prepared an auditor's report on the LGs' annual reports have insufficient experience in public sector auditing or lack knowledge of LG's characteristics. The NAO has presented the audit results to the Management Board of the Board of Auditors.

”Use of the administrative budgets of municipal governments”

It is impossible to tell the actual cost of management and administration in local government units. Inadequate classification of expenses in the budgets and budget implementation reports and failure to disclose information on the website do not give an overview to external information users of the nature of administrative expenses. On several occasions, reporting on budget implementation was infrequent and the administrative expenses are not subject to control by the municipal audit committees, as a rule. The lawful authority has been exceeded in the remuneration of mayors/ heads of municipal government or the members thereof. Several municipalities have failed to regulate the use of company cars and some keep no record of the car trips made.

”Investments of local government units”

The development plans of local government units are not comparable in terms of investment planning, because the legal requirements are formal by nature. Less than one third of the audited municipal development plans could be used as a basis for investment planning. Different development programmes of local governments are not always in harmony with regard to planned investment. No-one in the country has an overview of the priorities of local governments that could serve as a basis for investment planning at national level. Nearly half of the audited local governments should make their investments considerably more transparent in their budgets. Financial planning in local government is inadequate; therefore it is not clear if the municipalities are able to implement what has been planned.

”Use of funds allocated for remuneration of teachers and other educational staff in local governments”

The use of support allocated from the budget equalisation fund for educational expenses to pay salaries is not transparent, as the purpose of the money is not clear to local governments, because the legislative provisions regulating the remuneration of teachers are either incomplete and/or controversial. The money meant to be paid as remuneration for work has sometimes been paid as

bonuses and allowances unrelated to work. The use of and accounting for the teacher payroll in schools cannot be viewed separately from other wages and salaries and it is difficult to assess which positions were financed through the support. The allocation of the residual amount of additional funds from the state budget was delayed at the end of 2006, leading to illegitimate expenditures in local governments. The tasks of teachers have not been specified in a similar fashion, the teachers of equal qualification have not received comparable pay. Some local government units have imposed improper restrictions on payment of salaries. Teachers holding the rank of pedagogue received wages which at least corresponded to the minimum official rate of a teacher's pay, but the wage level of educational staff who were remunerated from municipal funds often remained below that of teachers.

"Economic activities of Rae Rural Municipality in 2006"

Accounting in Rae Rural Municipality is generally well organised and the system of internal control of the municipality is largely functional; however, some internal controls need improvement to ensure the accuracy of financial accounting and the regularity of activities of the municipal government. For example, the Audit Committee of the municipality's Council does not exercise all the powers entrusted to it - there were some shortcomings in recognising the funds received from the state in the municipality's budget, complying with the municipality's budget and organising inventories of the municipality's assets. The NAO believes that improved internal controls would allow avoiding shortcomings in the asset accounts. On several occasions the municipality failed to organise the public procurement tender procedure. The adoption of the municipality's general plan is delayed. There are shortcomings in involving the public in the processing of detailed plans.

Airi Mikli
Director of Audit, Audit Department V

1.7. NAO's audits

Audits are listed by ministries and their areas of government. If one audit concerns the area of government of several ministries, it will be listed under every ministry in question.

Ministry of Education and Research

19.09.2007 – Use of funds allocated for remuneration of teachers and other education staff in local governments

27.08.2007 – Compulsory school attendance and efficiency of its enforcement

12.07.2007 – Audit of the 2006 annual financial statements of the Ministry of Education and Research for the purpose of giving an opinion on the consolidated annual report of the state

29.03.2007 – Economic activities of Tallinn University of Technology

Ministry of Justice

20.06.2007 – Audit of the accuracy of the annual accounts 2006 and the legality of transactions of the Ministry of Justice for the purpose of providing an opinion on the government's consolidated report

Ministry of Defence

07.11.2007 – Organisation of accounting and economic activities in the Reconnaissance Battalion

02.11.2007 – Management of supplies in the area of government of the Ministry of Defence

22.08.2007 – The opinion of the NAO on the annual accounts 2006 of the Baltic Defence College

18.07.2007 – Audit of the 2006 annual financial statements and the regularity of economic transactions of the Ministry of Defence for the purpose of giving an opinion on the consolidated annual report of the state

23.03.2007 – Organisation of public procurement in the Ministry of Defence and its area of government

14.03.2007 – Regularity of economic transactions and organisation of accounting in the Defence League

Ministry of the Environment

21.11.2007 – Construction activities in shoreline areas

21.09.2007 – Planning of forest cutting in the State Forest Management Centre

10.08.2007 – Audit of the accuracy of the annual accounts 2006 and the legality of transactions of the Ministry of the Environment for the purpose of providing an opinion on the government's consolidated report

03.07.2007 – Provision of regular domestic garbage collection services in municipalities

11.06.2007 – Development of waste water treatment in rural areas with the support of the Cohesion Fund's projects

18.05.2007 – Efficiency of the organisation of environmental monitoring

05.01.2007 – Establishment of the South Estonian hazardous waste collection centre

Ministry of Culture

13.07.2007 – Audit of the 2006 annual financial statements of the Ministry of Culture for the purpose of giving an opinion on the consolidated annual report of the state

27.06.2007 – Protection of cultural monuments

10.04.2007 – Economic activities of the National Opera

Ministry of Economic Affairs and Communications

17.07.2007 – Audit of the accuracy of the annual accounts 2006 and the legality of the transactions of the Ministry of Economic Affairs and Communications for the purpose of assessing the government's consolidated annual report

05.04.2007 – Owner supervision in public undertakings and foundations

01.11.2007 – Quality of public services in the information society

Ministry of Agriculture

01.10.2007 – Organisation of animal waste management in Estonia

10.07.2007 – Audit of the accuracy of the annual accounts 2006 and the legality of transactions of the Ministry of Agriculture for the purpose of providing an opinion on the government's consolidated report

04.06.2007 – Effectiveness of the support granted for the development of agricultural production and rural life

Ministry of Finance

21.12.2007 – Relevance of official statistics and efficiency of data collection

04.10.2007 – Special report on the use of European Union financial support in Estonia in 2004–2006

28.08.2007 – Audit report of the National Audit Office on the consolidated annual report 2006 of the state

02.08.2007 – Compliance of annual reports for 2005 of local governments with the legislative provisions

11.07.2007 – Audit of the accuracy of the annual accounts 2006 and the legality of transactions of the Ministry of Finance for the purpose of providing an opinion on the government's consolidated report

Ministry of the Interior

31.08.2007 – Revaluation of the immovable property of county governments and its necessity for principal activity

30.08.2007 – Investments of local government units

27.08.2007 – Use of the administrative budgets of municipal governments

06.07.2007 – Audit of the accuracy of the annual accounts 2006 and the legality of transactions of the Ministry of the Interior for the purpose of providing an opinion on the government's consolidated annual report

16.05.2007 – Emergency preparedness of Estonia

04.04.2007 – Implementation of the programme fostering accession to the Schengen area

01.11.2007 – Quality of public services in the information society

Ministry of Social Affairs

13.09.2007 – State supervision over health care providers

17.07.2007 – Audit of the 2006 annual financial statements of the Ministry of Social Affairs for the purpose of giving and opinion on the consolidated annual report of the state

29.06.2007 – Activities of the state in reducing accidents at work

Ministry of Foreign Affairs

15.06.2007 – Audit of the accuracy of the annual accounts 2006 and the legality of transactions of the Ministry of Foreign Affairs for the purpose of providing an opinion on the government's consolidated report

Office of the President

31.05.2007 – Accuracy of the 2006 annual financial statements and regularity of transactions of the Office of the President

Chancellery of the Parliament

31.05.2007 – Accuracy of the 2006 annual financial statements and regularity of transactions of the Chancellery of the Parliament

State Chancellery

11.07.2007 – Audit of the accuracy of the annual accounts 2006 and the legality of transactions of the State Chancellery for the purpose of providing an opinion on the government's consolidated report

Supreme Court

16.05.2007 – Accuracy of the 2006 annual financial statements and regularity of transactions of the Supreme Court

Office of the Chancellor of Justice

17.05.2007 – Accuracy of the 2006 annual financial statements and regularity of transactions of the Office of the Chancellor of Justice

Local governments

13.11.2007 – Economic activities of Rae Rural Municipality in 2006

09.01.2007 – Organisation of internal control systems and accounting and regularity of economic transactions in Häädemeeste Rural Municipality in 2004 and 2005

09.02.2007 – Organisation of internal control systems and accounting and regularity of economic transactions in the town of Mustvee in 2004 and 2005

19.09.2007 – Use of funds allocated for remuneration of teachers and other educational staff in local governments

30.08.2007 – Investments of local government units

27.08.2007 – Use of the administrative budgets of municipal governments

02.08.2007 – Compliance of annual reports for 2005 of local governments with the legislative provisions

03.07.2007 – Provision of regular domestic garbage collection services in municipalities

Miscellaneous

16.10.2007 – Overview of the Use and Preservation of State Assets in 2006

1.8. Personnel

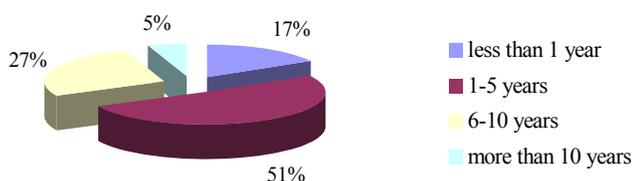
At the end of 2007, the National Audit Office employed 97 people, which makes 2 more people than at the beginning of the year. General employee turnover during the year was 16.7 %.

In 2007, work on the development of audit methodology was continued in the organisation. The department established in 2005 for auditing local government units won recognition both by the organisation and the public. At international level, active role was assumed for the enhancement of environmental audits, which entailed the set-up of a new structure within the NAO. Namely, the Secretariat of the INTOSAI Working Group on Environmental Auditing was added to the existing line-up of the NAO Services in 2007, and by today the Secretariat employs 4 people.

If in 2006 much attention in the training area was paid to the improvement of managerial skills of both top and middle managers, then in 2007 the focus was on the development of basic skills critical for auditing. Extensive further training courses on financial accounting and evaluation methodology were organised by the NAO.

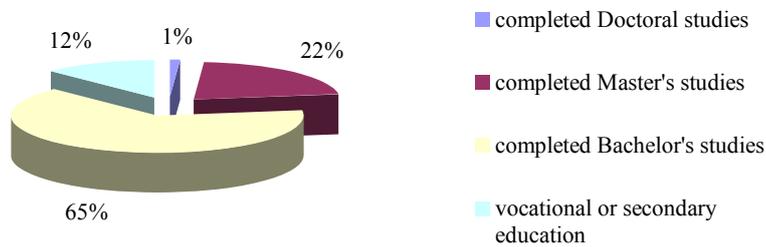
A little over 5 % of the NAO staff have worked for the company for over ten years; owing to the set-up of the department for local government auditing in 2006, the proportion of those who have been employed for 1 to 5 years (51 %) is quite big, but the proportion of newcomers in 2007 (17 %) is several times smaller than that in 2006.

Figure 1. Length of service of NAO employees as of 31.12.07



The vast majority of NAO employees have higher education – 88%, whereof 23% have an academic degree. Only 5% do not have higher education and are not in the process of acquiring it. Quite a few employees are doing academic studies to obtain Master's or Doctor's degree – as much as 19% of the staff will soon complete such studies.

Figure 2. Level of education of NAO employees as of 31.12.07



A small change (2 %) towards the prevalence of women has occurred in the NAO's distribution of gender. As of the end of 2007, 35 % of the employees were male and 65 % were female.

The average age of staff is 38 years and the age group of 31 to 40 is the largest (43 %), followed by the age group of 21 to 30 (30 %).

Annela Vaga
Consultant of Personnel Service

1.9. Relevant aspects of the NAO's international relations

In 2007, the XIX INTOSAI Congress was held in Mexico, where the two principal themes were management, accountability and audit of public debt and performance evaluation systems based on universally accepted key indicators. The implementation of the first strategic plan of INTOSAI was discussed and work programmes for the following period were approved.

It is important for the National Audit Office that the Congress recognized the efforts and preparations made by the NAO for over a year for taking over the Chairmanship of the INTOSAI Working Group on Environmental Auditing.

The Auditor General together with a delegation paid an official visit to the National Audit Office of China, a major aim of which was to explore possibilities for cooperation, in particular in the field of environmental auditing, as the National Audit Office of China chairs the Asian Regional Working Group on Environmental Auditing.

At the V EUROSAI/OLACEFS Conference, where one of the themes was the perspectives of fiscal sustainability in the modern state, the Auditor General made a presentation on fiscal sustainability in Estonia and acted as moderator for the same theme, summarizing the experience of different countries.

A delegation of the NAO, headed by the Auditor General attended the UN/INTOSAI symposium on "Value and benefits of government audit in a globalized environment", the seminar on the occasion of the 30th anniversary of the European Court of Auditors and the annual meeting of the Contact Committee of the Heads of the Supreme Audit Institutions of the EU Member States.

Employees of the National Audit Office introduced Estonia's experience at the seminars dealing with performance audit and e-governance as well as at the EUROSAI seminar on audit quality. The NAO participated as a financial audit consultant in the development project of the Moldovan Audit Office funded by Sweden and as advisor on the organisation of performance audit in the Supreme Audit Institution of Kyrgyz. We actively participated in the two working groups preparing discussions on the principal themes of the VII EUROSAI Congress held in Krakow in June 2008.

In 2007, another joint environmental audit of the Baltic Sea countries was started under the leadership of the National Audit Office of Denmark, which this time focuses on fish resources. The representatives of nine SAIs agreed on main audit criteria and time schedule at the working meeting in Tallinn and signed the memorandum of cooperation.

The venue of the 2007 annual meeting of the representatives of the SAIs of the Baltic countries, the Nordic countries and Poland was Tallinn and the organiser was the National Audit Office of Estonia. Experience was shared on the use of electronic audit tools, issues of employee training and auditor certification, and significant audit outputs were introduced.

Representatives of the NAO continued to attend the meetings of the existing working groups of INTOSAI, EUROSAI and the Contact Committee of the Heads of the EU SAIs and a representative was appointed to a new active working group – the working group on common auditing standards and comparable audit criteria of the European Union.

Foreign training activities continue to play an essential role in the development of the NAO. Longer-term international training sessions organised by the supreme audit institutions of India, the United Kingdom and the United States were attended. The last of them, a four-month training course on performance audit was reinforced by a two-month practice. 10 employees of the NAO took part in training at the European Court of Auditors, in the course of which a comprehensive overview was given of the Court of Auditors' structure, principles of activity, audit areas and methodologies of financial and performance audits with the help of practical examples. In addition to the above, also

shorter seminars and training events of EUROSAI, the European Commission and various working groups offered new knowledge.

Rein Söörd
International Relations Manager

1.10. Secretariat of the INTOSAI WGEA

On 10 March 2006, the Auditor General of Canada made a proposal to the National Audit Office of Estonia to consider running for the Chairmanship of the Working Group on Environmental Auditing (WGEA) of INTOSAI, the International Organisation of Supreme Audit Institutions (national audit offices), for its next working period 2008-2010.

Estonia's candidacy for the WGEA presidency was supported especially by the USA, Canada, the UK, Norway and Austria.

INTOSAI, the International Organization of Supreme Audit Institutions (national audit offices) was founded in 1953 and at present it comprises the supreme audit institutions of 188 countries. The principal bodies of INTOSAI are the Congress convening once in every three years and a 16-member Governing Board.

The mission of INTOSAI is to improve audit quality by facilitating the exchange of experience and developing audit methodology. In 1977, the INTOSAI adopted auditing standards to guide public and private auditors all over the world.

Substantive issues are discussed by international working groups on behalf of INTOSAI, whose work directs the development of audit methodology, knowledge and skills of all 188 countries.

The **Working Group on Environmental Auditing (WGEA)** set up in 1992 is one of the ten working groups affecting the development of the entire INTOSAI. At the end of 2007, the working group was composed of the SAIs of 64 countries, thus being the biggest working group of INTOSAI.

The purpose of WGEA is to develop environmental auditing in its member countries as well as non-member countries. A steering committee has been set up for the strategic management of the activities of WGEA, consisting of 18 countries at present. The steering committee meets once a year.

The WGEA work plan is drawn up for three years and so all work is performed in three-year cycles. From 2002 to the autumn of 2007, the Chairmanship of WGEA was held by the Office of Auditor General of Canada (earlier the coordinator was The Netherlands).

The WGEA Secretariat was set up as a structural unit in the National Audit Office of Estonia in April 2007.

On 25–29 June, the 11th working meeting of the INTOSAI WGEA was held in Arusha, Tanzania, where the NAO delegation also participated. Estonia unofficially took over the chairmanship there; the official handing over was finalized by the INTOSAI world congress in Mexico in early November 2007.

By the end of 2007, the WGEA Secretariat employed 3 people including the manager.

One of the most important tasks of the Secretariat is to coordinate and ensure the implementation of the work plan of the current period. Preparations are in the stage where at the end of 2007, the first part of the reference framework for programming the new version of the WGEA website to be taken over from Canada was completed and the WGEA logo has been modified. Further, the substantive and temporal planning of all project programmes on the work plan has been started.

According to the new more extensive work plan, the WGEA must initiate and complete in three years five major projects:

- interregional parallel audit of climate change (managed by Canada);
- regional parallel audits (regions select the topics, audits will be managed by regional coordinators);
- preparation of guidance materials for auditing government efforts as regards coping with the climate change (managed by Norway);
- preparation of guidance materials for auditing government efforts as regards the introduction of sustainable energy (managed by the Czech Republic);
- preparation of guidance materials for auditing government efforts as regards compliance with environmental standards in forestry (managed by Indonesia), in the extraction of mineral resources (managed by Tanzania) and in fishery (managed by the Republic of South Africa).

By the end of 2007, the agenda of the meeting of the WGEA Steering Committee to be held in Tallinn in early May had been drafted and all practical activities supporting the meeting had been started. Additionally, preparations for the next 12th working meeting of the WGEA taking place in Qatar in January 2009 had also been started in cooperation with the National Audit Office of Qatar.

Olavi Tammemäe
Director General of the Secretariat of the INTOSAI Working Group on Environmental Auditing

1.11. Overview of essential economic indicators

(in thousands kroons)

	2007	2006	2005	2004	2003
Balance sheet indicators					
Total assets at year end	3 746	22 988	22 656	23 621	22 550
Total liabilities at year end	3 628	2 545	1 266	1 064	1 038
Total net assets accrued to the state budget at year end	62	20 443	21 390	22 557	21 512
Income statement indicators					
Operating revenues	23	333	12	50	
Operating expenses	62 373	50 327	35 431	33 759	
Operating income (loss)	62 350	49 994	35 419	33 709	
Financial revenues and expenses	0	0	0	3	
Other indicators					
Average number of employees (full-time equivalent)	91	94	78	81	
Budget implementation indicators					
Estimated revenues	0	0	0	0	
Actual revenues	23	333	12	50	
Estimated expenses	64 236	49 070	35 516	34 008	
Actual expenses	61 930	49 058	33 953	33 999	

The amount of assets increased in 2004, because the ventilation and cooling system whose construction was started already in 2003 was recorded in the books as fixed assets.

The decrease in assets in 2005 was due to changing the capitalization threshold from EEK 10,000 per unit acquisition cost to EEK 30,000 for fixed assets.

Increase in assets in 2006 was mainly due to the acquisition of TeamMate auditing software.

Significant decrease in assets in 2007 was due to the change in ownership of the NAO's building, land and ventilation and cooling system, i.e. the NAO transferred them to the Ministry of Finance, and the Ministry in turn transferred them to Riigi Kinnisvara AS.

The percentage of annual leave balances payable in total liabilities at the end of the year was as follows:

79 % in 2003,

68 % in 2004,

88 % in 2005,

78 % in 2006,

95 % in 2007.

The discrepancy between the report on budget implementation and the income statement is due to the fact that the budget implementation report is presented on cash basis and the income statement is presented on accrual basis.

As a rule, the NAO does not project any revenues for the budget.

The earned revenues were composed of:

In 2004: insurance benefit paid by the property loss adjusters of IF Kindlustus for the elimination of a water pipe break in the office building;

In 2005: non-monetary targeted financing of training expenses;

In 2006: support from the State Chancellery under a project within the framework of Measure 1.4 "Enhancement of administrative capacity".

In 2007: non-monetary revenue of EEK 22,354 for the internship programme "Training of public service trainers to introduce the experience of the Republic of Ireland for the development of the public service training system and management of employee training" under Measure 1.4 "Enhancement of administrative capacity" and the receipt of EEK 754 under the Twinning project.

1.12. Reporting form for work plan implementation

Area of activity	Budget expenditure	Actual expenditure	Budget revenue	Actual revenue
Audit	62,332,395	61,930,472	0	23,108
Strategic goals:				
<p>The Members of the Parliament have complete, consolidated and independent information on the use of state's funds and assets. Governmental accounting is regular and accurate. The internal control systems in the public sector ensure that the activities of an entity are lawful and economical. The state information systems ensure the timely provision of correct information necessary for decision-making or public services. Budgetary planning is based on the long-term objectives of the government (agency) and the budgetary process has become stable. The objectives of the programmes funded by the government are achieved with an optimal cost of time and resources. State participation in foundations, companies and non-profit organisations is purposeful, transparent and efficient. The state deploys all financial support available from the EU in a proper manner and in compliance with the EU requirements. The performance audits conducted by the NAO encompass major problem areas and provide feedback to the Parliament. Each audit must produce future-oriented information.</p>				
<p>In 2007, 48 audit reports were submitted to the Parliament; the parliamentary committees made no reproaches for the selected subject areas and the quality of audits. Performance audits cover major problem areas (e.g. effectiveness of the support granted for agricultural and rural development; development of waste water treatment in rural areas; compulsory school attendance and efficiency of its enforcement; emergency preparedness of Estonia). The NAO could express an opinion on the 2006 consolidated annual report of the state, stating that the financial statements are accurate in material respect and the transactions have been performed in conformity with the State Budget Acts. In its report on the use of EU financial support in Estonia in 2004-2006, the NAO states that in general Estonia has used EU support regularly. All audits reports have put forward recommendations which the auditees have accepted as a rule. A feedback survey conducted among the auditees in 2007 showed that over 85 % of respondents considered the recommendations made during the NAO audits to be relevant and feasible. The NAO has envisaged follow-up to ascertain that recommended action is taken on reported findings. However, several effectiveness targets have not been achieved. First and foremost, several lately completed audits (efficiency of the organisation of rehabilitative treatment, efficiency of enforcement of compulsory school attendance, state supervision over health care providers, etc) prove that far too often the state does not succeed in accomplishing what has been planned. Further, the report of the audit "Quality of public services in the information society" points out that regardless of efforts, the quality of public services is not always guaranteed, and in the audit "Owner supervision in public undertakings companies and foundations" the NAO states that the direction and supervision of state companies and foundations has not been organised in an expedient and efficient manner.</p>				
Measure				
Audit	62,030,300	61,619,773	0	23,108
Explanations				
<p>No revenues were projected in budgeting for 2007, but actual receipt was EEK 22,354 from internship programme "Training of public service trainers to introduce the experience of the Republic of Ireland for the development of the public service training system and management of employee training" under Measure 1.4 "Enhancement of administrative capacity" and EEK 754 under the Twinning project. Of the investments carried forward from 2006 for obtaining a building exploitation permit, EEK 659,544 remained unused. We also took account of the fact that the NAO building will be demolished in 2010 and we performed only urgently required activities to ensure employee security. The fine-tuning of TeamMate, the electronic environment for audit management will be completed in 2008. The balance on the personnel expenses account was due to the failure to fill vacant positions with suitable applicants. Balance on the maintenance expenses account was due to a warmer winter than expected.</p>				
Study loan	302,095	310,699	0	0
Explanations				
<p>The write-off of the study loans of 27 officials was budgeted, but in fact the study loans of 31 officials were refunded.</p>				
Relevant activities and their immediate outputs				
<p>Conduct of performance and financial audits to examine and evaluate the use of taxpayers' money in national and local government. The NAO has set an objective for 2006-2010 to pay more attention to auditing the expedient, efficient and regular use of EU financial support. With its audits the NAO wishes assess whether all available support is used up in compliance with the EU requirements.</p>				
Overview of quality improvement in public services and organisational development				
<p>In terms of developing auditing techniques and procedures, the two main achievements in 2007 were the following: an audit manual was completed (to be approved in early 2008) and the electronic environment of audit management TeamMate was launched. A new audit report form was adopted, which is better legible than the previous one and where the public and the Parliament can obtain information about using the taxpayers' money. Information about the NAO's activities is available to the public in three languages: Estonian, Russian and English. Essential records of the NAO's activities have been digitalized, to enable the citizens to monitor the whole time series of the NAO's work. Attendance in training in 2007 expressed in hours was 10,052 hours in aggregate for all employees. 11 % of the training volume was devoted to the evaluation of the effect of policies and legislative acts and involvement of parties, laid down as a public service training priority. Ten NAO officials participated in</p>				

training at the European Court of Auditors, one employee participated in one-month training in India, one employee participated in two- week training in the UK National Audit Office, and one official participated in one-week training in Dublin. An extended training programme of one employee at the USA GAO was completed, so was the one-year work assignment of one employee as national expert at the European Court of Auditors.

Evaluation of the work plan implementation and explanation of the methodology used

Everything planned was accomplished. As the National Audit Office has only one measure, there was no allocation of revenues and expenses between measures.

2. Auditor General's speech and article published in the press in 2007

2.1. Speech of Auditor General, Mihkel Oviir to the Parliament on 14 November

Distinguished President of the Parliament, fine Members of Parliament,

Before addressing the main issue, I have the pleasure to inform the Parliament that the Estonian state and the National Audit Office of Estonia have earned great honour and responsibility on the global scene.

Namely – the National Audit Office of Estonia took over from Canada the Chairmanship of the INTOSAI Working Group on Environmental Auditing acting under the auspices of the United Nations. Currently, this working group includes the supreme audit institutions of 62 countries and with its 188 members it is the largest working group of this worldwide organisation.

In essence, the work and responsibility trusted to Estonia among the supreme audit institutions can be compared with the EU Presidency. The difference lies in the fact that among supreme audit institutions chairmanships are divided also by subject area and Estonia assumes the task of global promotion of audits in the field of environment.

Estonia's candidacy for the working group's presidency was supported especially by the USA, Canada, the UK, Norway and Austria. Thus, just like Estonia's military troops give a practicable contribution to the safeguarding of international security through NATO and our IT specialists contribute to cyber protection, the Estonian NAO contributes to global environmental auditing and raising public awareness of environmental issues.

But now let us get down to home business, although in today's world the labelling of topics as domestic and foreign is completely senseless. Estonia is part of the world and the world is part of Estonia. If we fail to see it, we may degenerate in the admiration of our belly buttons.

Dear Members of Parliament,

The development of and changes in the Estonian state are reflected in the reports on the use of state's funds and other assets, which the National Audit Office presents to the Parliament each autumn. As you have got the printed reports already, I won't retell the written text.

I will tell you directly that over many years part of the public has accused the NAO of not requiring anyone's blood, not wanting anyone to be jailed or get fired, but instead providing recommendations regarding the improvement of functioning of the systems.

I am convinced that the NAO cannot and must not borrow its slogan from the one time Raadio 2 hit show „Lightning-struck“. The NAO must be persistent but at the same time base its activities on the principle that in addition to critical assessment the criticiser has to offer a positive program, in other words an option for doing things in a better way.

This principle lies in the ideas of this speech of mine regarding four or five problems. Said problems address thinking and attitude and hinder development. The topics derive from our audits and the annual report in your hands.

I am of the opinion that Estonia must set mighty goals for itself and at the same time avoid depression as well as endless self-criticism if we fail to achieve said goals right away. It is not possible to jump

over one's shadow but one has to try. Many processes, especially the change in the way people think, take generations to develop.

Centuries of experience where one's view of the world was as broad as a horse's backside viewed from behind the plough, still bears influence on us. Here, today's Estonia could also be compared to a teenage boy, who has quickly grown in height but whose way of thinking is not yet one of an adult.

The state budget currently under discussion in the Parliament amounts to EEK 96 billion. A few years ago I asked a sort of a trivia question from the previous composition of the Parliament: how big was the first full budget after the restoration of independence of the Republic of Estonia for the year 1993.

Only few people guessed more or less correctly.

So, let me remind to the current Parliament that the budget for said year was to EEK 3.7 billion. Only think if that was the sum you had to distribute now...

Compared to other countries the sums of our budget are not big. For example, recent renovation work in a well-known London railway station cost approximately 18 billion Estonian kroons. Last year, China's oil and gas company PetroChina made its debut on the Shanghai stock exchange and for a certain period of time the market value of the company exceeded that of a trillion dollars.

Over the next few years Estonia will receive a gift of a huge amount of money, by our standards, from the taxpayers of other countries – that is over 65 billion kroons. This money is meant for Estonia to catch up with the old Member States of the European Union.

The National Audit Office viewed the problems regarding the use of money in the previous period on the basis of overviews carried out by others and based on that I would like you all to take account of the following:

While using money one must think of cost-effectiveness, i.e. of the ability to organize everything so that the generous support of the taxpayers of other European countries would in reality also be used in a way that its benefits would be permanent.

We have to observe, for example, whether the roads constructed with the help of European support are constructed and maintained so that they will survive in the future. Whether the treatment facilities we once again build with money received from Europe, are sustainably managed and keep functioning even after the European funds run out?

European taxpayers have a right to require us to provide an account on this. And they will be doing it along with the European Court of Auditors.

The NAO emphasizes that the use of other European countries' taxpayers' money must be as careful and cost-effective as the use of money received from our own taxes.

We must follow both the procedure and rules and use common sense as well as ensure cost-effectiveness and sustainability.

The society must also develop a clear attitude towards tax money, this relation has been weak for historical reasons. People must realize that there is no huge bottomless sack called "STATE FUNDS" but that everything in that sack actually comes from our own pockets.

If people fail to understand this the following saying will become a fact: taxpayer's money is the money he has after paying his taxes.

Honourable Members of Parliament,

The next item for you in today's agenda is the approval of the 2006 consolidated annual report of the state. Last year I told the previous composition of the Parliament that I will probably have to re-address certain topics over and over again with the next composition. And that is indeed so.

The topic of the consolidated annual report is one of them.

Indeed, the figures presented in it are mostly accurate, that I can confirm because the figures can be audited, thanks to the good work of the Ministry of Finance and chief accountant of the state. But this is only a part of the report. A very important part of the report is the management report and this is not auditable.

So what is it about? Namely this – activities are not linked to money. One part of the report lists several activities, another many tables full of figures. But there is no connection between them. This should be the following – the Government must inform the Parliament and the public of what it has done and achieved with the specific 2006 budget funds.

As this report does not provide such an overall picture, it should be seriously considered if the report in its current form is reasonable. Moreover, financial statements and the report on the implementation of the state budget cannot be mutually linked because of the use of different accounting principles.

An ongoing problem, also related to the consolidated report, is the time of its submission. Soon it will be the year 2008. I am afraid that in this era of information the information regarding the year 2006 may not be useful for use anymore.

Also, this report must be comprehensible to every citizen not only to accountants.

I am pleased that the Ministry of Finance has begun work to change the budget into an accrual-based and performance-based budget and make the accounting more transparent. This time it has promised to complete the budget reform by 2010.

I think that upon carrying out the reform one must once again be guided by common sense and measure and set goals only for such activities and results that are measurable and that you can set criteria for.

It is obvious that transition to an accrual-based and performance-based budget must not induce generation of artificial criteria. Here we should be careful so as to not to resort to absurdities.

Distinguished Members of Parliament,

Another area that concerns me is continually horizontal cooperation. Civilised administration requires very good horizontal cooperation between different Ministries as well as within areas of government. And inside the organisation.

For different Ministries this cooperational capability expresses itself differently but the result is the same – things are not moving or get dropped in No Man's Land. This is the Ping-Pong of responsibilities.

Let me give you an example from the book "Yes, Minister". It describes how at first the Ministry for Administrative Affairs was RESPONSIBLE for the frugal and effective management of the Government's work. But as this proved to be a difficult task, the usual followed and the obligations were rephrased.

Such embarrassing definitions as "RESPONSIBILITY", "frugality" and "effectiveness" were dropped. What remained was that the Ministry's goal is to SUPPORT the Ministries' administrative work.

The State of Estonia is afflicted by the same phenomenon as in “Yes, Minister”. Responsibility is not popular; no one wants to be the guide. At the same time everyone is willing to offer support. However, it is important to take full responsibility for a certain area and include others.

This problem is well illustrated by a very embarrassing matter that made its way even to the Cabinet. I am talking about the problem of outdoor toilets regarding drivers of trucks waiting to cross the border. This problem was brought up last year as well as this summer.

I cannot imagine the British, Danish or German governments having to face a problem where the Ministers must discuss who should find a solution for the toilet problem of drivers waiting on the border.

Such matter would never reach government level because the officials would have found a solution for it among themselves, without dropping it on the government.

But in Estonia an official’s first reaction to a problem is often that someone else should take care of it. Not him. Heaven forbid that the official should take initiative. It is much better to delegate the problem to someone else.

Several excuses are made up for this purpose. Diligent officials look hard for sections in Government legislation and elsewhere, behing which they could hide instead of just finding a solution for the problem.

However, I hope that this matter about the toilet shall remain an extreme example and in the future, when the officials again plan to drop finding solutions to problems on someone else, they themselves should be in the shoes of those suffering from said problems. Hopefully, common concern will bring about common activity.

Problems with horizontal cooperation have existed over the years also at Ministers’ level. In Estonia’s system of coalition governments it is very painful for a Minister when another Minister comes and says that this and that should be done in his Ministry, and all this by a mentioned deadline.

And if this is said by a Minister from the party of a coalition partner, the pain and reluctance are even bigger.

Part of these problems is due to the fact that in legislation the making of the smallest decisions has been delegated to as high as possible, often to the Government.

Thus, the Government has to appoint executers of rights of members of some land improvement associations, approve rules for protected areas, address problems regarding Pinnipedia as well as other odds and ends, which could very well be decisions made at the lower levels of Ministries.

Also, I find it very annoying when certain absurdities or omissions are blamed on the insufficiency of regulations. Regulations are meant for making procedures clearer and simpler, not the other way round.

In addition to all else we must not forget common sense. General good practices, morality and common sense help to conquer any problem, you only have to want it.

I can assure on the basis of my own experience that there are very good and hard-working officials in Estonia. As a rule, these officials are overly burdened. But there are also some who come up with their tasks themselves.

Nevertheless, Estonia should review the entire public sector and analyse whether manpower is placed in the way necessary for finding effective solutions for the problems the state is facing.

Estonia is carried forward by rational, courageous and brainy decisions as well as original ideas, not thousands of pages of strategies, development plans and other documents in bureaucratic jargon and with fanciful titles that even the compilers themselves do often not take seriously and that are carried out only for a “check mark”.

Honourable Parliament,

A very important area that needs your care and attention is local governments. Based on the decision of the Parliament, last year the NAO started to audit all local governments. Our objective was to get a general overview of the problems of local governments within the first years.

I now have this overview and very soon the honourable Parliament shall receive from us a general report on the activities of two years. As usual, I intend to be very open in this subject because by sweet-talking I would only deceive both you and myself.

Local governments can clearly be divided into two: those who are capable of existing independently and those who are not. Those capable of it form approximately 10 % of the total figure while the others form 90 %.

Today I shall not talk about the 10 % – that is of Tallinn, Tartu, Pärnu, Viljandi and other more prosperous rural municipalities. I shall talk about the other 90 %, about small rural municipalities.

We have found many errors in local governments but these have not been due to direct malevolence.

It is just difficult, not to say impossible, for the rural municipalities to find and keep highly qualified accountants, information technology experts, lawyers and other specialists. Those people just do not exist. And I venture to guess that it will remain so because Estonia's larger cities are also working hard to find people.

Thus, the local governments' main problem lies not in money but in manpower.

And for this, I believe, there are three main solutions.

First option: the state shall offer its support to rural municipalities regarding all said problems, mostly takes responsibility for the provision of services, administration, project management. On the scale of whether to provide a hungry person with a fish or a fishing rod, I would call it a fish-solution.

However, I emphasise that if the state imposes a new obligation on the rural municipality, it must also ensure means for its achievement.

For example, it is inadmissible if the state requires the rural municipalities to introduce a new kind of register but does not provide a respective computer program for it and rural municipalities themselves have to order it and figure it out. This way we will have 200 different programs not compatible with each other and we still do not know how much of anything we have in said register when entire Estonia is concerned. This will also waste a lot of money we do not have.

The second option is clearly based on the administrative-territorial reform which would establish rural municipalities with sufficient human capital that would be capable of meeting its duties. As I do not see an agreement at this moment that would carry out such a reform, we obviously cannot put our hopes on the administrative reform.

And the third option which seems the most real at the moment. This includes delegation of certain functions to local government associations.

Local government associations would bring together its region's local governments, organize the management of their projects, transport issues, problems regarding the infrastructure, etc. Here, the

duties of local governments, their associations and county governments must be defined clearly. Local government association would be a sort of local directorate who organizes things.

But in this case the question will again rise that asks what is the essence of small rural municipalities as local governments. What is it? I realize that anyone can feel as the director of the universe wherever he wants to but is it not more sensible for local governors to join forces at this point?

Honourable audience

Finally about a subject that is connected to all the previous topics. And this is E-ESTONIA, that Eesti with three e's or E-stonia, as our foreign friends say.

Indeed, Estonia can consider it very successful in creating prerequisites for an information society. And this not only because we have managed to impress the rest of the world with our forward-looking initiatives: we already have over a million ID cards, e-voting, e-Tax Board, public points of Internet access, public WiFi, X-Tee, etc.

At the same time we're facing a problem that all these wonderful IT-solutions are not yet at the disposal of the citizen. This is also obvious from the audit "Quality of public services in information society" just completed by the NAO. A thorough summary of it has been provided for you.

Already five years ago the Parliament banned the excessive administrative burdening of people in Estonia. Electronic administration is equal to written administration. However, upon concluding the results of the audit the NAO had to admit that people in Estonia are still forced to run around inadmissibly and in vain. We still have to collect approvals for applications and get proof. Data printed on paper from the electronic system of one authority must be taken to another authority where they will in turn be entered in its computer system.

The reason for this clinging to paper administration is no big news: looking down on the citizen, organization of services and provision of information in the way it has always been done and convenient for the official. How to bring about a change?

One of the recommendations of the NAO is to draw up a CHARTER FOR E-CITIZEN and approve it in the widest possible circle. The charter for E-citizen would describe in simple wording the principles of the good administration of information society and define the criteria on the basis of which the quality of each specific public service can be assessed. This both from the viewpoint of the citizen and of the authority.

As an example of the charter for e-citizen you have received an unofficial translation of a similar document in the Netherlands, translated in the NAO. This was implemented in 2006 and in the opinion of the NAO this could be the role model for Estonia upon drawing up the charter for e-citizen.

In the Netherlands, the charter has already received the status of the standard for public services as it has been approved by central government and the levels of regional and local governments.

Moreover, the local ombudsman, the Dutch Allar Jöks uses the charter's criteria in his everyday work.

The creation of the Dutch charter for e-citizen has been an interactive process that has included various interest groups. Creation of the Estonian e-citizen charter would provide us with an opportunity to strengthen our civil society and include people in the shaping of the life in the state. We even have a national inclusion portal.

It should be kept in mind that nearly a quarter of the EU gross domestic product and 40 % of productivity increase are the result of information and communication technology applications.

In a situation where our capacity is a huge problem and the amount of people in every area of life very small, we can alleviate this problem by relying on information technology.

IT-systems may also be helpful in curbing the crippling and carnage taking place in traffic. As requested by the NAO, researchers of the Road Institute of Tallinn University of Technology carried out a brief analysis which shows that this year the total damage of traffic accidents in current prices amounts to more than five billion kroons.

Whereas road financing and decrease in the number of traffic accidents is not in correlation. Researchers say that unsuitable driving habits on good roads may even bring about an increase in the number of accidents.

By the way, according to the Traffic Insurance Foundation the expenditure on claims within the entire traffic insurance system over the 9 months of this year was 48 % bigger than the figures for the respective period last year.

Dear Members of Parliament,

As in the entire world auditing has traditionally focused on the past, the auditing world has changed and will keep on changing. Over the past few years the supreme audit institutions of the world countries have been reorienting to future because in the pace of today's world little can be done with hindsight.

We also have some examples of such audits – for example the audit addressing the problems of sustainability of the agriculture and audit of the capability of sewage treatment.

This new direction means that the past and the present are viewed in order to provide timely information on the future to political decision-makers – the Parliament and the Government.

Thus, the so-called sustainability audits have become an item on the agenda. These audits analyse and estimate who will current activities or lack of them affect the future – for example in ten or twenty years.

Such sustainability audits are especially topical in the countries who at one time established, for example, a luxurious system of social guarantees and all kinds of subsidies. As the number of taxpayers decreases and that of dependants increases, current system cannot last any longer.

All these questions are also before Estonia – how to maintain in the future the state with an ageing population, where there are less and less workers and creators of value? From where, from who and how will be generated the income for spending? We can handle the distribution, if only we had anything to distribute.

Which would be a sustainable structure of the state and economy?

Which education should be provided for people survive in global competence?

Which would be the optimal health system?

What to do in order to ensure that after 25 years there would still be light in lamps, fresh air to breathe and clean water to drink?

The duty of the National Audit Office of Estonia is to provide you with timely information that would help all of you sitting here make decisions and shape the policy whose results can only be seen after several years to come.

The role of our audits is to draw attention to questions and liven up the exchange of ideas on the subject of how to solve problems as rationally as possible or prevent problems.

I wish us all courage in making decisions and a broad and colourful view of the world.

Thank you for your time!

2.2. Funds should really be allocated politically

Article of the Auditor General in Postimees on February 5, 2007

Some people will at first probably meaningfully tap their foreheads after reading that I am calling the Parliament and the Government to make the distribution of taxpayer's money clearly and unambiguously political. Let us dwell on it, however. Is it not the definition of politics that has shifted somewhat?

Efforts should be made so that the definitions of "political" and "policy" would regain their original meaning in the eyes of the voters – pursuing common things in common interest.

The practice of making decisions in the Parliament on how to use the taxpayers' money that finally came into the view of the media last week was called a clandestine orgy of money and many other names. There is nothing clandestine about it, this practice has been around for years, at times it has been executed through national investment programmes, then through Ministries.

For example, from the 2004 budget approximately 80 million kroons were distributed through the "21st century school" project, the Ministry of Education and Research was excluded from it and decisions were made in the Parliament as a result of the mutual agreements of certain politicians in the government coalition. This money was distributed on the basis of random criteria among ten schools. And it is extreme hypocrisy if a politician claims to have known nothing about it.

Over the past week I have repeatedly been asked for an opinion on such distribution of funds. I am firmly convinced that distribution of taxpayer's money must be carried out through political decisions.

However, any decision made by a politician is not automatically a political decision, i.e. a decision made in common interest, responsible and considered in every way. Just as it is completely wrong and most unfair to regard each member of the Parliament and of the Government as a hoodlum, thief and dangerous idiot, the public as well as politicians should not label any stupidity as a political decision, generating distrust in politics as such.

Bring equal opportunities to zero

The way in which the members of all parties represented in the Parliament distributed the much talked about couple of hundred millions, is not one I would give as an example of sensibility, transparency and good way of handling money.

The practice where members of the Parliament distribute taxpayer's money, favouring re-election, among local community cultural centres, schools and other objects in definite need of development, is regrettable even by the principle of equal treatment.

If a part of objects receives investments, going through a thorough and multistage analysis of funds requirement, county-level charts are drawn up for them, etc., and another part of similar objects is financed through the so-called back door, it nullifies and makes pointless the entire system of applying for and distributing money from the state budget. In that case it is not important whether this object actually needs money or does it just need it at this moment. The only thing that counts is the whim of the member of the Parliament.

Thus, some investments may prove inexpedient, meaning that money taken from our pocket is just wasted. These threats are not theoretical, they have already become a reality. Money has been spent on schools which were afterwards closed down, as it appeared to be the reasonable thing to do.

The fish does not always rot from the head

If someone now wants to point out that the fish does rot in the head, then on this occasion I am of the opinion that it is the other way round. Undoubtedly, the accusations regarding politicians are unfortunately too often justified but there is another side of the story. For some reason, politicians are always seen as “them” and then there is “us”, the wise and infallible people, the voters. The dominant attitude regarding this last distribution of money is also similar: it was done by those up there in Toompea.

Unfortunately, our politicians have not arrived from another planet and in reality we are all “us”. Quality of politicians and political culture depends on all of us, the voters. The better the quality of the voter, the better the quality of the politician – there is an obvious connection here. But which is the quality of an average voter in Estonia?

Last year a journalist asked me why it is possible for politicians in Estonia to present investments made with taxpayer’s money as a personal gift. The answer is simple. Because the voters accept it if one politician or another says that it is he who “organised” the new roof for the school or a swimming pool for the rural municipality, or that it is he who is the fairy godmother of the pensioners.

If the voters would boo at such a politician, the politicians would not dare to behave that way. But the voters do not do it. Instead they applaud and vote in the elections, hoping to receive more money if voting for this person.

Both generally and in the past few days it has been strange to read about the boasting of one politician or another on the subject that they, members of the Parliament elected from Y county brought money for this object and another. And often it is actually true that they have done it by using their influence, in the same way as the last time. The parties say openly that it is only because of them that a certain local government has received money.

These boasters who promise money, as well as the voters, have forgotten the Constitution, if they have ever read it, or they have failed to understand it. The Constitution says that a member of the Parliament is not bound by his or her mandate.

This principle of a free mandate also means that the member of the Parliament is not and may not be the representative of a specific region, for example of a constituency or a group of voters in Estonia. He must take into account the interests of the state in the broadest sense, not become a representative of local interests in Toompea. Failure to understand this fact is probably one of the reasons why the number of objects that randomly receive money from our pockets, has been increasing over the past years.

But even here the voters and candidates are mutually connected. The problem arises when the voters wish to see the members elected from their constituency or city as their “own”, who “bring” money from Tallinn. And this is one of the factors that forces politicians to assume the role of such a money pump in reality, because the votes of the voters are the politician’s only capital. Thus we, voters, should all take a look in the mirror as the behavior of the members of the Parliament, disapproved in the media, is largely due to our own wrong expectations and pressure.

The media continually complains that politicians keep dropping populist slogans, etc. Alas, here too the mutual influence of voters and politicians must be seen.

If the voters would not favour populism, it would not be used. If instead of simple and primitive slogans and tomfoolery the voters yearned for rational analysis, we would probably see that analysis being carried out. Demand defines the supply.

I agree with the saying of George Bernard Shaw that democracy is a device that insures we shall be governed no better than we deserve. Here we should see the positive message: the better we are, the better we shall be governed.

Every day the world around us becomes more difficult and finding a direction on the global chess board requires hard work and understanding. That is why the society must also avoid the oversimplification of the way of thinking and deterioration of ideas. Otherwise we may find that due to unacceptable background the people who leave are the ones who wish to live in a loving and wise society, not in one that is stupid and mean and where the air is ripe with anger and cynicism.

We should rise above our comprehensions and assess our existence in the background of a much larger scale. Then we would realize that instead of dealing with things that matter our thoughts are often occupied by pseudo-topics that waste time and energy.

Dangerous trend

In my opinion the indifference spreading in the society is extremely worrying, as is the decrease of the citizen's responsibility in the relationship between the citizen and the state. People forget that it is the citizen's duty to be up to date regarding his view of the world, comprehensions and knowledge, so that it would enable him to take part in democratic elections, the decision-making process, govern the state through representative democracy.

By taking part in elections and making responsible decisions we can dispel the spread disappointment and confirm our trust in the parliamentary state. The Parliament needs the support of us all. Attempts to ridicule parliamentarism only serve the interests of those who wish for the voters to voluntarily trust themselves in the hands of a firm-handed authoritarian leader. This is very suitable for some voters: no need to use their own heads for thinking and take responsibility for anything.

Arising from this an anxious *post scriptum*: Does the following quote not describe current states of mind: "The power has been transferred from the people as the exerciser of the supreme power to the parties. The parties /.../ know how to make much noise... To find a solution for the arisen political /.../ crisis the people has put all its hopes on the amendment of the constitution."

Can you guess who the author of this quote is? Artur Sirk. Ideological and substantial leader of the Vaps Movement.

3. Annual Accounts of the National Audit Office

Management's declaration

The Management declares its responsibility for drawing up the annual accounts of 2007 on pages 49 to 65 and confirms to the best of its knowledge that:

1. the accounting policies applied in the annual accounts are in conformity with the accounting principles generally accepted in Estonia;
2. the annual accounts reflect the financial situation of the accounting entity, the results of its operations and its cash flows in a true and fair manner;
3. the National Audit Office is a going concern.

Mihkel Oviir
Auditor General

Rein Söörd
International Relations Manager in the
capacity of Director of Corporate
Services

27.05.2008

Balance sheet

(in kroons)

	Note	31.12.2007	31.12.2006
Assets			
Current assets			
Other claims and advance payments	4	874 841	219 499
Total current assets		874 841	219 499
Fixed assets			
Tangible fixed assets	5	812 609	21 249 231
Intangible fixed assets	6	2 058 968	1 519 088
Total fixed assets		2 871 577	22 768 319
Total assets		3 746 418	22 987 818
Liabilities			
Short-term liabilities			
Arrears to suppliers	8	139 610	519 679
Arrears to employees	8	3 463 354	1 987 919
Other claims and advance payments	9	25 217	37 398
Total of short-term liabilities		3 628 181	2 544 996
Revenue accrued to the state budget	11	118 237	20 442 822
Total liabilities		3 746 418	22 987 818

Mihkel Oviir
Auditor General

Income statement

(in kroons)

	Note	2007	2006
Operating revenue			
Targeted financing for operating expenditure	3	23 108	333 158
Total operating revenue		23 108	333 158
Operating expenditure			
Labour costs			
Remuneration costs	13	-32 700 676	-27 065 486
Fringe benefits	13	-548 273	-499 682
Taxes and social security contributions	13	-11 288 098	-9 387 351
Total labour costs		-44 537 047	-36 952 519
Management expenses	10	-13 947 412	-10 169 797
Tax, fee and fine expenses	3, 10A	-2 254 736	-1 746 141
Depreciation of fixed assets	5,6	-1 615 384	-1 442 615
Grants awarded	12	-12 642	-12 642
Other operating expenditure	10A	-5 953	-2 890
Total operating expenditure		-62 373 174	-50 326 604
Operating result	11	-62 350 066	-49 993 446
Result of the period before the settlements with the state budget		-62 350 066	-49 993 446
Net financing from the state budget		62 350 066	49 993 446

Mihkel Oviir
Auditor General

Report on budget implementation

(in kroons)

Classification	2007		2006	
	Budget	Execution	Budget	Execution
Total revenue budget	0	23 108	0	333 158
35 Grants received	0	23 108	0	333 158
3500 Targeted financing for operating expenditure	0	23 108	0	333 158
Total 2007 expenditure budget	62 332 395	60 686 895	49 070 271	47 498 894
4 Appropriations	13 300	12 642	13 300	12 642
4500 Membership fees	13 300	12 642	13 300	12 642
50 Personnel expenditure	43 684 695	42 641 396	36 164 300	35 768 769
500 Remuneration	32 099 069	31 287 299	26 686 414	26 399 087
505 Fringe benefits	524 897	538 170	348 261	314 863
506 Taxes and social security contributions from the personnel expenditure	11 060 729	10 815 927	9 129 625	9 054 819
55 Management expenses	16 127 400	15 874 084	11 535 671	11 571 238
5500 Administration expenses	3 912 454	4 352 880	2 340 124	2 322 946
5502 Costs of commissioned research and development	1 574 917	996 302	1 095 036	902 744
5503 Mission expenses	1 825 440	1 925 040	1 029 698	1 016 967
5504 Training expenses	1 541 560	1 522 898	1 300 000	1 348 975
5511 Management costs of reg. immovables, buildings & rooms	2 388 817	2 254 544	2 121 913	2 165 207
5513 Vehicle maintenance expenses	523 752	461 809	496 000	467 851
5514 Information and communications technology expenses	3 291 160	3 314 377	2 418 000	2 545 567
5515 Inventory costs	959 300	940 036	514 900	610 329
5522 Medical expenses	110 000	106 198	130 000	117 536
5524 Training expenses (for third persons)	0	0	90 000	73 116
60 Taxes, fees, fines	7 000	6 245	7 000	6 245
6010 Land tax	7 000	6 245	7 000	6 245
15 Acquisition and renovation of tangible and intangible assets	2 500 000	2 152 528	1 350 000	140 000
1551 Renovation of civil engineering works	0	0	1 210 000	0
1555 Acquisition and renovation of ICT-equipment	0	0	140 000	140 000
1556 Other depreciating tangible fixed assets	96 383	96 383	0	0
156 Acquisition of intangible fixed assets	2 403 617	2 056 145	0	0
Total budget of funds transferred from the preceding fiscal year	1 903 121	1 243 577	1 560 977	1 558 746
500 Remuneration	296 722	296 722	0	0
506 Taxes and social security contributions from the personnel expenditure	98 808	98 808	0	0
5503 Mission expenses	82 197	82 197	0	0
5504 Training expenses	215 394	215 394	0	0
1551 Renovation of civil engineering works	1 210 000	550 456	57 820	57 820
1555 Acquisition and renovation of ICT-equipment	0	0	170 042	170 042
156 Acquisition of intangible fixed assets	0	0	1 333 115	1 330 884

Revenue

The NAO does not usually recognise revenue in the budget.

2007 revenue was formed by non-monetary income of EEK 22,354 from the measure 1.4 project "Improving Administrative Capacity" grant programme "Public service training specialists' lessons from the experience of the Republic of Ireland upon shaping the public service training system and managing training of officials" and by income of EEK 754 from the project Twinning.

Expenditure

Accrued expenses in 2007 were 62,373,174 and cash-based expenses were EEK 61,930,472.

Report on budget implementation and income statement cannot be compared due to the use of different accounting principles. Report on budget implementation is drawn up on a cash-based principle, the income statement records economic transactions using the accrual method. Acquisition of tangible and intangible fixed assets is recorded as expenditure in the state budget and depreciation of fixed assets is not recorded in the state budget. VAT added upon the acquisition of goods and services (incl. fixed assets) is recorded in the state budget along with the cost of goods and services but as a separate type of expenditure in accounting. EEK 2,305,044 remained unused from the 2007 state budget. A request for transfer into the next fiscal year was applied for EEK 1,652,691. EEK 347, 472 of it for the launch of information system TeamMate, EEK 1,051,903 for personnel expenses (at the expense of vacant positions) and EEK 253,316 for management expenses. Of the investments for the authorisation for use of the building transferred from 2006, EEK 659,544 remained unused. We took into account that the NAO building would be demolished and thus we only carried out activities that were necessary and provided security for officials. Fringe benefits in the 2007 budget also include study loans. Additionally, the Ministry of Finance transferred EEK 16,000 to the NAO support account of study loans and taxes deducted from them.

Mihkel Oviir
Auditor General

Cash-flow statement

(in kroons)

	Note	2007	2006
Cash-flows from operating activities			
Operating result	11	-62 350 066	-49 993 446
Adjustments			
Depreciation of fixed assets	5,6	1 615 384	1 442 615
Total adjusted operating result		-60 734 682	-48 550 831
Net change in current assets		-655 342	-88 277
Net change in liabilities		1 508 758	853 784
Total cash-flows from operating activities		-59 881 266	-47 785 324
Cash-flows from investing activities			
Paid at the time of acquisition of the fixed assets	5,6	-2 048 452	-1 260 726
Total cash-flows from investing activities		-2 048 452	-1 260 726
Cash-flows from financing activities			
Net financing from the budget	11	61 929 718	49 046 050
Total cash-flows from financing activities		61 929 718	49 046 050
Net cash-flow		0	0
Cash and its equivalents at the beginning of the period		0	0
Changes in cash and its equivalents		0	0
Cash and its equivalents at the end of the period		0	0

Mihkel Oviir
Auditor General

Notes to the annual accounts

Note 1. Methods of accounting and the bases of evaluation applied in the annual accounts

The annual accounts of the National Audit Office have been drawn up in conformity with the State Budget Act and the accounting principles generally accepted in Estonia. The generally accepted accounting principles are based on internationally acknowledged accounting policies (EU directives on accountancy, international standards of financial accounting and international standards of state accountancy) and their main requirements are established in the Accounting Act of the Republic of Estonia, which are supplemented by the guidelines issued by the Accounting Standards Board as well as the requirements set out in the general rules on state accountancy.

The annual accounts are drawn up using the cost model.

The cash flows of the core activity are drawn up by using indirect method. The cash flows from investing and financing activities are shown as gross receipts and gross payments of the accounting period.

The annual accounts are presented in Estonian kroons.

Assets and liabilities

The assets and liabilities are divided into short- and longterm on the balance sheet, depending on whether their expected period of use is up to, or more than one year of the balance sheet date. Holiday pay reserve is adjusted once a year – at the end of the financial year.

Other claims

Other claims on the balance sheet are recognised using the adjusted cost model. The claims in the balance sheet are recognised when the right of claim arises and they are assessed on the basis of the amounts likely to be received. Where possible, the outstanding claims of each client will be assessed separately, taking account of the information known about the client's solvency. The claims unlikely to be received are assessed in the balance sheet at the amount they are likely to be received. The claims received in the accounting period but previously written off are recognised as the reduced cost of the claims unlikely to be received in the accounting period. Claims are deemed to be uncollectible if the management finds that it is impossible to collect them. Uncollectible claims are written off.

Tangible and intangible fixed assets

Tangible fixed assets are the assets whose estimated useful life is more than one year and whose acquisition cost is at least EEK 30,000. Assets with a useful life of more than one year and with an acquisition cost of less than EEK 30,000 are recognised as low-value inventory and written off at the time they are put into service.

Expenditure on reconstructions of fixed assets extending the useful life of the assets and improving their quality or performance to restore the initial condition are capitalized on the balance sheet as fixed assets. Expenses on the repair and maintenance works to maintain the initial condition of assets are recognised under the expenditure of the accounting period at the time they incur.

Fixed assets are recognised at their acquisition cost less the accumulated depreciation and the possible devaluations resulting from the decrease in value. Two linear methods are used in the calculation of depreciation. The depreciation rate is determined individually for each fixed asset item, depending on its useful life.

Mihkel Oviir
Auditor General

Annual depreciation rates for fixed assets groups:

Buildings 2 %
Civil engineering works 7 %
Machinery and equipment 20 %
ICT-equipment 33%
Other inventory, tools and fittings

Land is not subject to depreciation.

Assets with a useful life of more than one year and with an acquisition cost of at least EEK 30,000 are recognised as intangible fixed assets. Intangible fixed assets are recognised at their acquisition cost less the accumulated depreciation and the possible devaluations resulting from the decrease in value. Intangible fixed assets are generally depreciated in 4 years using the linear method.

Financial and operational leases

A rental contract in the case of which all important risks and benefits related to the ownership of the asset are transferred to the lessee is regarded as a financial lease. Other rental contracts are recognised as operational lease.

The assets leased under an operational lease contract are not recognised on the balance sheet. The payments for operational lease are recognised as expenses evenly throughout the lease term.

Targeted financing

Support granted for specific purposes and related to certain terms and conditions is recognised as targeted financing. In the case of this support the provider of targeted financing controls the purposeful use of support. Targeted financing is not recognised as revenue or expenditure until it is sufficiently certain that the final recipient is in compliance with the terms of targeted financing and said financing shall take place.

Recognition of targeted financing of operating expenditure is based on the principle of conformity of revenue and expenditure (revenue from targeted financing is recognised in proportion with the related expenditure). Recognition of targeted financing uses gross method, on the basis of which the compensated expenses and received support shall be recognised separately in the income statement.

Tax accounts

Irrecoverable taxes and fees paid at the time of the acquisition of fixed assets (e.g. value added tax, if the buyer is not liable to value added tax) are recognised as expenditure at the time of acquisition and they are excluded from the acquisition cost of the assets.

Operations conducted in foreign currency

Operations conducted in foreign currency are recognised on the basis of the official exchange rate of the Bank of Estonia at date of the operation. Gains and losses from the foreign exchange operations are recognised on the income statement as the profit and loss for the period.

Net financing from the state budget

Acquisition of fixed assets and expenses is recovered from the state budget and recognised as transfers received. The transfer of calculated revenue to the state budget is recognised as transfers made.

Mihkel Oviir
Auditor General

Note 2

Cash and its equivalents

The Treasury makes transfers from the NAO budget and administers all the receipts belonging to the NAO. In 2007, the NAO used only the accounts belonging to the group account.

Note 3

Transactions with public sector and associated bodies

(in kroons)

I. Liabilities and claims

	Short-term liabilities		Short-term claims	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
State accounting entities	6 112	806	0	0
including				
Tax and Customs Board	6 112	806	0	0
Other legal persons governed by public law	0	1 969	0	0
including				
Art Museum of Estonia	0	944	0	0
Tallinna Humanitaargümnaasium	0	900	0	0
Tallinn University	0	125	0	0
Subsidiaries	776	7 110	8 283	0
including				
Estonian Post Ltd.	776	7 110	8 283	0
Associated bodies	17 997	25 394	0	0
including				
Elion Enterprises Ltd.	6 029	12 445	0	0
EMT AS	11 968	12 949	0	0
Total	24 885	35 279	8 283	0

Liabilities to the Tax and Customs Board are specified in Note 9.

Mihkel Oviir
Auditor General

II. Expenditure

	Personnel expenses	Management expenses	Tax and fee expenses	Total expenses
State accounting entities	50 951	90 530	2 254 737	2 396 218
including				
Tax Board	0	0	2 254 737	2 254 737
Estonian Open Air Museum	50 951	19 642	0	70 593
Ministry of Finance	0	21 558	0	21 558
National Archives of Estonia	0	20 834	0	20 834
Health Protection Inspectorate	0	12 508	0	12 508
State Chancellery	0	8 166	0	8 166
Estonian Literary Museum	0	5 120	0	5 120
Public Service Academy	0	2 095	0	2 095
other state accounting entities	0	607	0	607
Local governments	7 053	12 536	0	19 589
including				
Tallinn Secondary Science School	4 500	0	0	4 500
Tallinna Humanitaargümnaasium	1 600	0	0	1 600
Kristine Sport	953	0	0	953
Tallinn Transport and Environment Department	0	10 500	0	10 500
Harku Rural Municipality Government	0	2 000	0	2 000
Tallinn City Archives	0	36	0	36
Other legal persons governed by public law	6 947	92 183	0	99 130
including				
Estonian National Opera	6 947	0	0	6 947
University of Tartu	0	44 800	0	44 800
Estonian Public Broadcasting	0	20 441	0	20 441
Tallinn Airport	0	15 600	0	15 600
National Library of Estonia	0	8 700	0	8 700
Tallinn University of Technology	0	2 600	0	2 600
Tallinn University	0	42	0	42
Foundations and non-profit associations	0	11 486	0	11 486
including				
The Estonian Information Technology Foundation	0	10 500	0	10 500
Jõgeva Sport SA	0	986	0	986
Subsidiaries	0	483 043	0	483 043
including				
Andmevara AS	0	460 339	0	460 339
Estonian Post Ltd.	0	20 466	0	20 466
Technical Inspection Centre Ltd.	0	1 000	0	1 000
Other subsidiaries	0	1 238	0	1 238
Other public sector entities	0	43 750	0	43 750
including				
Board of Auditors	0	43 750	0	43 750
Total public sector entities	64 951	733 528	2 254 737	3 053 216
Associated bodies	0	181 114	0	181 114
including				
EMT AS	0	116 412	0	116 412
Elion Enterprises Ltd.	0	64 702	0	64 702
TOTAL	64 951	914 642	2 254 737	3 234 330

VAT formed EEK 2,248,492 and land tax expenses EEK 6,245 from the tax expenses.

III. Revenue

	From targeted financing
State accounting entities	23 108
including	
Ministry of Finance	23 108

Revenue was formed by support from the Ministry of Finance for the measure 1.4 "Improving Administrative Capacity" in the amount of EEK 22,354 and for project Twinning in the amount of EEK 754.

Note 4**Other claims and advance payments**

(in kroons)

	31.12.2007	31.12.2006
Expenses of future periods paid in advance	870 898	212 106
Claims	0	1 069
Deductions from wages	3 943	6 324
Total other claims and advance payments	874 841	219 499

Of the expenses of future periods paid in advance, advance payments for periodicals in 2008 form EEK 196,758, audit software licences form EEK 276,714, authorisation for BNS and ETA databases EEK 279,473; firewall repair and maintenance services form EEK 55,814.

Note 5**Tangible fixed assets**

(in kroons)

	Land	Buildings & civil engineering works	Machinery and equipment	Other fixed assets	Total
Acquisition cost as at 31.12.2006	1 040 800	28 608 749	3 029 975	2 901 948	35 581 472
Accumulated depreciation as at 31.12.2006	0	-8 899 000	-2 689 203	-2 744 038	-14 332 241
Residual value as at 31.12.2006	1 040 800	19 709 749	340 772	157 910	21 249 231
Changes in 2007					
Acquisition and improvement of assets	0	303 432	185 113	122 354	610 899
Transfer without charge	-1 040 800	-28 608 749	0	0	-29 649 549
Write-off	0	0	-1 081 568	-46 629	-1 128 197
Depreciation	0	-876 654	-174 860	-91 770	-1 143 284
Reclassification of depreciation	0	9 745 312	1 081 568	46 629	10 873 509
Acquisition cost as at 31.12.2007	0	303 432	2 133 520	2 977 673	5 414 625
Accumulated depreciation as at 31.12.2007	0	-30 342	-1 782 495	-2 789 179	-4 602 016
Residual value as at 31.12.2007	0	273 090	351 025	188 494	812 609

Land, buildings and civil engineering works

In 2007, the NAO gave its land and its building with breathing and venting and cooling system to the Ministry of Finance. As of 31.12.2007 the Ministry of Finance gave them to AS Riigi Kinnisvara. Emergency lighting system was acquired in 2007.

Machinery and equipment

2 servers, a back-up device for the server and a network device were bought.

During the year, depreciated IT equipment in the acquisition value of EEK 1,081,568 was written off.

Assets in the acquisition cost of EEK 529,613 were transferred upon requests.

The assets were transferred to MTÜ Taaskasutuskeskus (12 PCs, 9 laptops, 14 monitors and 2 printers).

Other fixed assets

A photocopier and TV set were acquired in 2007.

Machine Ellips in the value of EEK 11,544, kitchen cupboard with a sink in the value of EEK 10,186 and furniture in the value of EEK 24,899 were written off as unserviceable assets.

Mihkel Oviir
Auditor General

Note 6**Intangible fixed assets**

(in kroons)

	Software	Total
Acquisition cost as at 31.12.2006	1 813 031	1 813 031
Accumulated depreciation as at 31.12.2006	-293 943	-293 943
Residual value as at 31.12.2006	1 519 088	1 519 088
2007. a toimunud muutused		
Acquisition	1 011 980	1 011 980
Depreciation	-472 100	-472 100
Acquisition cost as at 31.12.2007	2 825 011	2 825 011
Accumulated depreciation as at 31.12.2007	-766 043	-766 043
Residual value as at 31.12.2007	2 058 968	2 058 968

Document management software, back-up software for servers and digital archives system for audit materials were purchased in 2007.

EEK 425,573 was paid for software acquired in 2006 (outstanding invoices to suppliers as at 31.12.2006).

Note 7**Off-balance-sheet items****Operational lease**

(in kroons)

Contractual payment obligations

	2006	2007	2008	2009	2010-2012
Means of transport	158 025	166 826	166 826	166 826	166 826
Building	0	0	2 737 656	3 357 656	15 000 000
Consumer technology	14 752	24 784	27 876	27 876	27 876
Total assets on operational lease	172 777	191 610	2 932 358	3 552 358	15 194 702

3 passenger cars have been leased under operational lease. Coffee machines are being leased as consumer technology. The building's lease payments are drawn up in accordance with the estimate provided by AS Riigi Kinnisvara and are subject to change due to the decision of the Government of the Republic to sell the building. Operational lease payments are recorded in management expenses. Upon termination of contract, the lessor does not impose fines on the NAO.

Note 8**Arrears to suppliers and employees**

(in kroons)

	31.12.2007	31.12.2006
Arrears to suppliers	139 610	519 679
Arrears in remuneration	18 386	0
Undeclared social tax liability	7 719	0
Undeclared withheld income tax	4 888	0
Declared withheld unemployment insurance premium	97	0
Declared withheld contribution to funded pension	90	0
Holiday pay liabilities	3 431 138	1 987 919
Arrears in management expenses	396	0
Arrears in mission expenses	640	0
Total	3 602 964	2 507 598

Arrears to suppliers are formed by services not paid for at the end of 2007.

Undeclared tax liabilities are calculated from arrears in remuneration, which was paid in January 2008.

Holiday pay liability includes social tax and unemployment insurance premium. Arrears in mission expenses is due to the mission at the end of December. Arrears in management expenses is due to a service purchased in December.

Note 9**Other claims and advance payments**

(in kroons)

	Tax arrears	
	31.12.2007	31.12.2006
Social tax	2 381	474
Income tax added to the fringe benefits	3 731	332
Credit card	19 105	36 592
Total	25 217	37 398

Tax arrears are due to fringe benefits in December. There are no overdue tax arrears.

Note 10**Management expenses**

(in kroons)

	2007	2006
Management expenses	13 947 412	10 169 797
Administration expenses	3 394 469	1 983 208
including		
Office supplies	236 621	175 656
Publications and other notification leaflets	247 790	209 807
Translation services	279 204	142 166
Communications services	183 008	158 040
Postal services	47 544	26 222
Banking services	6 774	8 187
Economic transport services	1 750	0
Representation expenses and expenses of entertaining guests (excl. gifts and award:	172 358	194 114
Gifts and awards (excl. to own employees)	181 489	69 253
Recording and auditing services	93 000	84 000
Personnel services	133 148	80 819
Information and PR services	1 718 171	778 475
Other administration expenses	93 612	56 469
Information and communications technology expenses	2 721 869	2 197 727
including		
Information technology equipment and accessories	1 392 500	761 496
Communications technology equipment and accessories	31 414	34 064
Information technology software	242 066	1 131 521
Maintenance and repair services	150 468	48 054
Lease of information and communications technology equipment and software and	178 811	173 486
Information and communications technology development	724 100	47 206
Other information and communications technology expenses	2 510	1 900
Administrative expenses on reg. immovables, buildings and rooms	2 106 325	1 873 718
including		
Heating and thermal energy	129 635	169 301
Electricity	241 920	222 567
Water and sewerage	37 477	29 343
Maintenance and repair materials, ancillary equipment and accessories	71 630	109 003
Maintenance services	659 050	422 232
Security services	478 662	506 288
Repairs, restoration and demolition	416 460	322 433
Insurance premiums	21 000	20 913
Rent and lease	1 978	0
Expenses of other reg. immovables, buildings and rooms	48 513	71 638
Mission expenses	1 916 256	963 753
including		
Accommodation services	622 320	363 512
Travel expenses	939 045	389 561
Insurance of seconded workers	15 146	7 238
Daily allowances	243 000	146 440
Other mission expenses	96 745	57 002

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Training expenses	1 573 971	1 178 069
including		
Training services	1 179 482	878 303
Training materials	0	103 427
Lease of training premises and equipment	18 008	36 171
Accommodation expenses	175 436	51 433
Travel expenses	64 510	58 592
Insurance of seconded workers	5 842	3 104
Daily allowances	121 690	35 180
Other mission expenses	7 214	11 245
Other training expenses	1 789	614
Research and development expenses	911 138	832 537
Expenses on the management of inventory	758 105	526 566
including		
Equipment and its accessories	596 600	410 718
Maintenance and repair services	66 924	28 910
Lease	40 381	19 751
Other equipment management expenses	54 200	67 187
Vehicle management expenses	439 590	417 737
including		
Fuel	55 926	50 855
Maintenance and repair materials, ancillary equipment and accessories	8 140	11 164
Maintenance and repair	48 390	37 199
Insurance	20 464	24 855
Lease	295 407	281 603
Other management expenses of land vehicles	11 263	12 061
Various management expenses	125 689	196 482
including		
Medical supplies and devices and toiletries	9 569	9 511
Health services	96 200	108 025
Training services	0	61 963
Transport services	19 920	16 983

Note 10A

Other expenses

(in kroons)

	2007	2006
Other expenses	2 260 689	1 749 031
including		
Currency spreads (excl. financial income and expenses)	5 953	2 890
Value added tax	2 248 491	1 739 896
Land tax	6 245	6 245

One of the main reasons for the increase in management expenses is Estonia's taking over as the leader of the INTOSAI working group of environmental auditing (WGEA). Both administration and mission expenses increased due to this. Increase in the management expenses of reg. immovables, buildings and rooms is due to the increase in prices and roof repairs carried out in 2007.

Increase in the expenses on the management of inventory was due to the effort to improve the working environment and make it better. ICT-expenses increased in relation with additional maintenance contracts of the server park and network devices, purchase of digital TV service, introduction of the library program RIKS, annual updating of the version of analysis software QlikView and annual fee of the SAP.

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Auditor General

Note 11**Net financing from the state budget**

(in kroons)

Cash transfers from the state budget	61 929 718
Received from the state budget for making transfers	61 936 254
Received intra-entity transfers	16 000
Receipts transferred to the state budget	-22 536
Transfers from the income statement	62 350 066
Revenue accrued to the state budget as at 31.12.2006	20 442 822
Net transfer for transferring the difference in the cash and accrual accounting results to the state budget	-420 348
Transfers to entities	-19 904 237
Revenue accrued to the state budget as at 31.12.2007	118 237

Transfers to entities are formed by the assets' residual value that the Ministry of Finance has given to Riigi Kinnisvara AS.

Note 12**Grants awarded**

(in kroons)

	2007	2006
EUROSAI	7 323	7 323
INTOSAI	5 319	5 319
Total membership fees	12 642	12 642

The NAO is the member of INTOSAI already since 1992 and the member of the regional association EUROSAI since 1993.

Note 13**Labour costs**

(in kroons)

Remuneration costs	2007				2006	
	Graduated & basic salary	Additional & performance pay	Holiday pay	Grants and benefits	Total remuneration costs	Total remuneration costs
Officials						
Auditor General	631 298	126 262	177 110	0	934 670	742 332
Higher officials	8 149 744	4 450 353	1 834 878	78 122	14 513 097	10 025 884
Senior officials	9 036 917	4 748 340	1 809 972	228 924	15 824 153	15 839 402
Junior officials	469 103	172 365	73 701	7 008	722 177	13 483
Total officials	18 287 062	9 497 320	3 895 661	314 054	31 994 097	26 621 101
Employees						
Workers and support staff	88 384	62 389	21 962	0	172 735	107 681
Total employees	88 384	62 389	21 962	0	172 735	107 681
Temporary staff	533 844	0	0	0	533 844	336 704
Total remuneration costs	18 909 290	9 559 709	3 917 623	314 054	32 700 676	27 065 486

Average number of employees	2007	2006
Officials		
Auditor General	1,00	1,00
Higher officials	32,38	26,03
Senior officials	54,11	66,13
Junior officials	3,48	0,00
Total officials	90,97	93,16
Employees		
Workers and support staff	1,00	1,00
Total employees	1,00	1,00

Fringe benefits	2007	2006
Write-off of study loans	182 215	186 170
Other fringe benefits	366 058	313 512
Total fringe benefits	548 273	499 682

Taxes and social security contributions	2007	2006
Social tax on wages	10 796 531	8 935 790
Unemployment insurance premiums	95 300	78 970
Income tax on fringe benefits	158 513	156 417
Social tax on fringe benefits	237 754	216 174
Total taxes and social security contributions	11 288 098	9 387 351

Remuneration to the management forms EEK 4,529,571 from the remuneration costs .

The management did not receive any additional fringe benefits.

The management includes the Auditor General, Directors of Audit and the Director of Corporate Services.

Mihkel Oviir
Auditor General

4. Opinion on the NAO internal control system

As the Auditor General, I find that the NAO internal control system is efficient, i.e. the system is effectively operational, conforms to the rules of procedure, and ensures the agency's legitimate and economic performance and the protection of resources.

The NAO internal control system includes structure, management attitudes, applicable procedures and other measures providing reasonable assurance that:

- the Office's operations are legitimate;
- the Office's assets are protected from damage resulting from wasting, unintended use, fraud, incompetent management, etc;
- the Office conducts its business economically, efficiently and effectively, and ensures high quality of services;
- the management and financial information reflecting the Office's business is reliable, accurate and timely.

The NAO has established statutory and internal rules of procedure which are respected and monitored as to compliance. The separation of duties has been ensured in the performance of the Office's functions and in the documentation and authorisation of transactions, and supervision is exercised.

Mihkel Oviir
Auditor General

5. Signatures to the annual report

The NAO annual report for the financial year that ended on 31.12.07 consists of the management report and annual accounts.

The management report and the annual accounts have been drafted by the executive management of the NAO. The Auditor General and the Head of International Relations Service in the capacity of Director have examined the annual report.

Mihkel Oviir
Auditor General

Rein Söörd
International Relations Manager
in the capacity of Director of Corporate Services

27.05.2008

6. Auditor's report

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Estonia:

We have audited the accompanying annual accounts (page 49 to 63) of National Audit Office of Estonia, which comprise the balance sheet as of 31 December 2007, and the statement of financial performance, the cash flow statement and the statement of implementation of budgeted income and expenses for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Annual Accounts

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with the Estonian Accounting Act, the General Rules for State Accounting and the guidelines issued by Estonian Accounting Standards Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts present fairly, in all material respects, the financial position of National Audit Office of Estonia as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with the Estonian Accounting Act, the General Rules for State Accounting and the guidelines issued by Estonian Accounting Standards Board.

Veiko Hintsov
Certified Auditor
27 May 2008

AS Deloitte Audit Eesti