

Report of the National Audit Office on the Consolidated Annual Report of the State for 2010

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Summary of audit results

What did we audit?

Pursuant to the State Budget Act, the National Audit Office has to audit the annual report of the state and prepare an audit report, where it gives its opinion on the accuracy of the report and the legality of transactions.

In order to perform its obligation, the National Audit Office audited the annual accounts of state accounting entities for 2010 in addition to the Consolidated Annual Report of the State for 2010. The financial audits conducted by the National Audit Office are available on the website of the National Audit Office.

Scope of the audit

The annual accounts of the state contain the financial indicators of public undertakings, foundations controlled by the state and profit-making state agencies. They were audited by certified auditors and the National Audit Office relied on their work in its audit.

In order to express an opinion on the legality of transactions, the National Audit Office verified whether the audited transactions were performed in accordance with the State Budget Act, the 2010 State Budget Act and its amendment act.

Limitation of the scope of the audit

Unlike the auditors of the National Audit Office, certified auditors have not assessed the legality of transactions, which means that the scope of the audit is limited in respect of the legality of transactions.

The National Audit Office did not audit the management report presented as a part of the Consolidated Annual Report of the State, but it did audit the correspondence of the figures given in the management report to those presented in the annual accounts.

The National Audit Office did not audit, but did review the additional information about local authorities, the public sector and the government sector disclosed in the Consolidated Annual Report of the State.

Opinion of the National Audit Office

In our opinion, the Consolidated Annual Report of the State for 2010 gives a true and fair view of the state's financial status, performance results and cash flow for the period ended in all material respects and in accordance with the Generally Accepted Accounting Principles of Estonia.

In our opinion, the state's most significant economic transactions were performed according to the State Budget Act, the 2010 State Budget Act and its amendment act.

Audit findings

The National Audit Office also made observations, which did not affect the National Audit Office's opinion of the Annual Accounts and the legality of transactions. The main observations are as follows:

- The level of organisation of accounting in the ministries and in the agencies within their area of government is predominantly good. The project for combining all support services, which is managed by the Ministry of Finance and aims to introduce a single information system for financial, personnel and payroll accounting in all state agencies, has been ongoing since 2010. It entails the centralisation of the main part of accounting functions into a unit that serves agencies in the same area of government. This will change the organisation of accounting in the areas of government of ministries. The key factors of centralisation are the readiness of IT applications and establishment of a suitable internal control system.
- According to the state's budget implementation report, the actual budget revenue in 2010 amounted to 87.755 billion kroons and actual budget expenditure to 87.651 billion kroons.

The National Audit Office found that similarly to previous years, the planned earnings of state agencies from economic activities are lower than the actual earnings and they also plan more money for investments than they actually manage to spend, enter into lease contracts not prescribed in the budget act, and make investments from management costs and vice versa.

The National Audit Office believes that planning the state budget must improve and the Ministry of Finance should keep a closer eye on planning: when creating their annual budgets, ministries have to be more thorough in their analysis of the total budgeted revenue from investments, financing transactions and economic activities on the basis of prior experience in receipt of revenue, obligations entered into with contracts signed for several years, and contracts to be entered into.

Response of the Minister of Finance. The Minister of Finance agreed with all of the recommendations made by the National Audit Office and promised to follow them. The Minister found that the audit report of the National Audit Office gives a summary of the most significant observations about the state's financial reporting, and helps eliminate omissions and develop the state's financial management system further.

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Opinion on the accuracy of the Consolidated Annual Accounts of the State for 2010 and the legality of transactions

Opinion on the annual accounts

The annual accounts of the state are accurate in all material respects.

1. The annual accounts of the state, which indicate that the state's consolidated result for 2010 is -663 million kroons and its total consolidated assets amount to 162.4 billion kroons, gives a true and fair view of the state's financial status, performance results and cash flow for the financial year ended in all material respects and in accordance with the Generally Accepted Accounting Standards of Estonia.

Opinion on the legality of transactions

No significant errors were found in the implementation of the State Budget Act

2. According to the state's budget execution report, the actual budget revenue in 2010 totalled 87.755 billion kroons and actual budget expenditure amounted to 87.651 billion kroons. The National Audit Office believes that the state's most significant economic transactions were performed according to the State Budget Act, the 2010 State Budget Act and its amendment act.

Limitation of the scope of the opinion

3. The annual accounts of the state contain the financial indicators of public undertakings, foundations controlled by the state and profit-making state agencies. Their annual accounts were assessed by certified auditors, who audited the annual accounts but not the legality of transactions. A summary of the opinions of certified auditors is given in Notes 2 and 3.

No assessment is given on the management report

4. The National Audit Office did not audit the management report presented as a part of the Consolidated Annual Report of the State, but it did audit the correspondence of the figures given in the management report to those presented in the annual accounts. The National Audit Office will complete the audit "Activities of the government in the assessment of the impact of its work and reporting on the results" in autumn 2011, which will also take a look at the information presented in the management report.

Observations about state accountability

5. The accountability errors detected in the accountability of state accounting entities are listed in items 16-42. Although these errors do not have an impact on the accuracy of the state's annual accounts as a whole, they may lead to significant errors in state accountability if no improvements are made, and refer to omissions in the internal control system and financial management.

6. The National Audit Office has given detailed explanations of the omissions found and recommendations on how to avoid them in the audit reports and memos sent to state accounting entities. An overview of the results of the financial audits conducted by the National Audit Office is given in Note 1.

The level of organisation of accounting in the areas of government of ministries is good

The level of organisation of accounting has improved

7. The National Audit Office has consistently audited the level of organisation of accounting in ministries and the agencies in their areas of government since 2004. The National Audit Office has seen the progress that has occurred in the organisation of accounting over the years: there are less and less omissions in accounting and the organisation of stock-taking; there are still a few omissions in the accounting of tangible and intangible fixed assets; most agencies have their internal accounting policies and procedures, which they also adhere to; and the chief accountants of ministries coordinate accounting in the entire area of government more than before. Omissions in accounting and internal control were found in agencies belonging to the areas of government of the Ministry of the Interior and the Ministry of Economic Affairs and Communications.

The manner in which information is presented in the report must be improved

8. The purpose of the annual accounts of ministries is to enable the National Audit Office and the public to control the activities of the ministries, incl. the use of budgets. This means that important information in the annual accounts must be presented in a manner that the reader can understand. Now that the level of organisation of accounting in the areas of government of ministries is predominantly good, it is necessary to pay more attention to the quality and content of the annual accounts as well as the manner in which information is presented. The National Audit Office found errors in the manner information was presented in the 2010 annual accounts of the Ministry of Social Affairs and the Ministry of Agriculture.

9. 2010. The project for combining all support services, which is managed by the Ministry of Finance and aims to introduce a single information system for financial, personnel and payroll accounting in all state agencies, started in 2010. It entails the centralisation of the main part of accounting functions into a unit that serves agencies in the same area of government by 2014. This will change the organisation of accounting in the areas of government of ministries. The centralisation of support services is discussed in items 10-14.

Centralisation of the accounting of three ministries is almost completed

The success of the centralisation of accounting depends on the completion of information systems

10. Centralisation of accounting is a part of the [consolidation of support services](#), which is discussed below.

The support services consolidation project (TUTSE) is aimed at introducing a single information system for financial, personnel and payroll accounting in all state agencies and creating relevant service units in areas of government.

11. In last year's audit report on the Consolidated Annual Report of the State the National Audit Office assessed the initial stage of the centralisation of state accountancy and highlighted the significant factors that may cause the project to fail if ignored. Significant factors in the opinion of the National Audit Office were a realistic reorganisation schedule and thorough preliminary analysis with active support from the agency's management; sufficient IT support of the Ministry of Finance in the development of applications as well as advice during the centralisation process; and sufficient attention to the creation of internal control systems in the new activity model.

12. 01.01.2011. As of 1 January 2011 the centralisation of accounting has been finalised in the areas of government of the Ministry of Finance, the Ministry of Justice and the Ministry of Economic Affairs and Communications. In addition to the centralisation of accounting organised within the scope of the TUTSE project, some ministries have worked on streamlining their support activities outside the project. For example, the Ministry of Education and Research has centralised the accounting of 29 state schools. The state had 202 accounting units in the beginning of 2010; only 125 of them remained by 1 January 2011.

13. The Ministry of Finance published an overview of the support services consolidation project on its website as a part of the state budget strategy for 2012-2015. In the overview the Minister claimed that the centralisation of accounting has improved the qualification of staff and guaranteed better performance. However, the Minister of Finance also admitted that the expected decrease in the number of staff and operating expenses had not been achieved. The reason given for this is that the development projects concerning information exchange and reporting have not yet been implemented.

Centralisation of accounting has been more successful in smaller and less complicated areas of government

14. In the financial audits conducted this year the National Audit Office investigated how the centralisation of accounting had progressed in ministries. The National Audit Office has found several good examples of the centralisation of accounting, but some problems were also detected. The National Audit Office made the following observations about centralisation on the basis of the audits conducted in ministries and the overviews prepared by the Ministry of Finance:

- Centralisation of accounting has progressed smoothly in areas where the transfer to a single accounting programme and combining the accounting of agencies has taken place gradually and started before the agencies joined the TUTSE project, e.g. in the course of the reorganisation of agencies in the area of government. However, the limited knowledge ministries have of accounting in their agencies and the considerable differences in the areas of accounting extend the time required for centralisation. The Road Administration (in the area of government of the Ministry of Economic Affairs and Communications) and the Police and Border Guard Board (hereinafter the PBGB, in the area of government of the Ministry of the Interior) underwent structural changes in their organisation, staff restructuring, centralisation of support services and implementation of new information systems in principal activities all at the same time, and such extensive changes meant that there was not enough money or management attention for the reorganisation of accounting. Problems emerged in the transfer to new accounting software and centralisation was delayed. These examples also confirm the need to find a project manager with good professional knowledge and management skills to take charge of the centralisation process. The centralisation process went well in the Ministry of Finance, as the accounting software SAP has been in use for years and specific areas of accounting were not transferred, and the Ministry had also harmonised the organisation of its own accounting and the accounting in its agencies in previous years.

The management and control system must be thought through and clearly established in centralisation

Account extensions – various features added to source documents, such as budget classifier, accounts, transaction confirmations, department and project codes etc.

The determining factors of centralisation are the readiness of IT developments as well as sufficient and timely IT support

- In centralised accounting, work is usually organised in such a manner that divisions have financial staff or cost managers, who enter **account extensions** on source documents and service units then enter the information noted on the documents using the accounting software SAP. The division of work between agencies and service units must not lead to dispersion of responsibility. In order to guarantee the legality and accurate recognition of data, work must be organised in such a manner that the officials in agencies are able to understand and check the content of transactions. This means that the financial staff or cost managers who stay in agencies must have sufficient knowledge of the accounting areas of the agencies, the agency must establish internal control procedures for verification of transactions and add the necessary tasks in the job descriptions of the relevant officials, and make sure that everyone adheres to their job descriptions. In order to guarantee efficient functioning of the chain of internal control, it is equally important that the accountant who enters data in a service unit is sufficiently familiar with the accounting area, so they can check that the account extension entered on the source document in the agency is correct. For example, the chief accountant of the Ministry of Education and Research claims that the control environment and the level of accounting in state schools have improved as a result of centralisation. Interviews with financial staff in the area of government of the Ministry of Economic Affairs and Communications indicated that the division of responsibility is still not clear and only the service unit is responsible for the accuracy of accounting entries. The audit performed by the National Audit Office indicated that the attention paid to updating the internal control system in the PBGB during the reorganisation of accounting and implementation of new information systems was insufficient and led to problems in several accounting areas (see items 27-36).
- The expected benefits of centralisation will be achieved if the centralisation process is supported by document management systems and other electronic information exchange options. Sending information to the servicing unit by post, scanning or other means may otherwise take too long. The National Audit Office therefore believes that essential IT developments must be completed and implemented before accounting in the next ministries is centralised, incl. the introduction of electronic information exchange systems (self-service portal) and e-bill processing. The agencies that are undergoing centralisation must keep in mind that the information systems of their principal activities must be interfaced with accounting software. The National Audit Office supports the intention of the Ministry of Finance to develop nationwide solutions and reduce the number of applications that are essentially copies of each other.
- The interviews given to the National Audit Office have indicated that the ministries that participated in centralisation needed more IT support from the Ministry of Finance at the time the SAP was implemented and immediately thereafter. The Ministry of Finance should consider sending SAP consultants to the agencies

due to be centralised next so that any problems emerging in the implementation stage can be quickly resolved and officials receive the instruction they need in their work.

- The Ministry of Finance organised training for the ministries that transferred to the SAP before the software was implemented. The explanations given to the National Audit Office indicate that training before the implementation of the software has not been particularly useful, because questions emerge in the course of work. The Ministry of Finance could therefore organise the training in parts and give some of the training after the agency has already been using the SAP for some time.

15. Recommendations of the National Audit Office to the Minister of Finance:

- The IT developments should be completed before new ministries are added to the project.
- The centralisation of accounting should be organised in such a manner that the internal control system associated with the new organisation of work is specified and the tasks related to the changes are explained to all parties.
- The existence of sufficient and timely IT support in the service units that are undergoing centralisation must be guaranteed, e.g. it should be possible to send an SAP consultant to the service unit and organise SAP training in several stages.

Response of the Minister of Finance: The initial schedule according to which areas of government join the project has been amended. 2011. The agencies where preparation of the project started in the first half of 2011 will be transferred to centralised accounting and SAP in 2011. 2012. No centralisations and transfers to SAP have been planned for 2012, because this is when we focus on preparing the standardised version of the SAP so we can start using it from 1 January 2013. We will also prepare and implement the self-service portal in 2012. We will continue cooperating with the agencies that have not been transferred to the SAP by 1 January 2010 in order to transfer them to centralised organisation of work and the SAP in 2013 and 2014.

In our opinion, the tasks upon the transfer to the centralised organisation of work are specified in sufficient detail with activity models and the annexes belonging thereto. The explanations given immediately after the transfer to the new centralised organisation of work mainly indicate uncertainty about the implementation of new software and changes in the division of work. Our surveys show that people have overcome this after the transition period and now understand the positive results of the project.

It is true that training is the most effective when given in the course of work, and we have offered it by sending consultants to the agencies as well as giving advice by telephone and e-mail. We are reviewing the options of offering user support and will also consider the organisation of follow-up training as suggested by you.

The accounting principles of state forest were changed in 2010

The principles of keeping record of state forests have changed

16. 31.12.2010. The book value of state forests as of 31 December 2010 is 12 billion kroons. 2009. The book value of state forests in the end of 2009 was 28 billion kroons. The decrease in value was caused by the changes in accounting policies and principles made in 2010.

17. All the forest managed by the profit-making state agency State Forest Management Centre (SFMC) used to be recognised in the balance sheet of the Ministry of the Environment (forest that was not managed was recognised as an off-balance sheet asset), but only the forest planned to be cut (or, more specifically, the timber to be obtained by cutting), which is calculated as the ten-year average based on data forecasts, is recognised in the balance sheet since 2010. This means that the net present value of the revenue to be obtained from sales of the timber to be cut from the state forest is now recognised instead of the actual monetary value of the existing state forest.

Only the revenue expected from the sale of cut forest is now disclosed in the report instead of forest as a state asset in its entirety

18. The National Audit Office is of the opinion that recognising only the value of the forest planned to be cut in the annual accounts does not reflect the actual value of the state asset as a whole or the changes that have occurred in the asset. The reason is that the state has considerably more forest than the forest that will be cut. The value of the state forest as a whole may change considerably depending on whether the forest left growing as a result of forest management have big or small reserves, whether they are coniferous or deciduous forests etc.

19. The National Audit Office asked the supreme audit institutions of Finland and the United Kingdom how state forest is recognised in accounting in their countries. We found out that forest kept for commercial purposes and protected forests are recognised separately in the balance sheet. An account of each type is kept according to different principles as set out in the International Accounting Standards: forest for commercial purposes is recognised pursuant to IAS 41 (International Accounting Standard 41 'Agriculture') and protected forests pursuant to IAS 16 (International Accounting Standard 16 'Property, Plant and Equipment'). The National Audit Office believes that the accounting principles concerning state forest must be developed further in Estonia in order to guarantee financial accounting and an overview of existing state assets and their use also in respect of non-managed forests. As long as this is not done it is extremely important to present detailed information about managed and non-managed forests in the notes to the annual accounts. The National Audit Office is of the opinion that the State Forest Management Centre has not disclosed enough information in its 2010 annual accounts.

The methodology used to calculate the value of cut forest complies with international practise, but must be updated

20. The National Audit Office is of the opinion that the methodology, which was established with the General Rules of State Accountancy and introduced in the SFMC, and which is now used to calculate the value of the forest planned to be cut is in compliance with international practice. However, several preconditions must be met for the implementation of this methodology, which was pointed out by the auditor who audited the annual report of the SFMC as well as the National Audit Office.

21. Use of the methodology means that the value of the state forest is calculated on the basis of the prescribed cut that can be eternally

Although the calculation is arithmetically correct, the result may be inaccurate, as the preconditions for using the accounting principle have not been met

Both the state forest as well as forest land should be recognised in the report of the Ministry of the Environment

preserved, and that the diversity of species and perfection of the forest does not change significantly over decades. The methodology also assumes that the average sale price of timber for ten years remains stable.

22. 2010. The methodology for assessing the value of the state forest that was introduced in 2010 is primarily based on the SFMC management's forecast of the prescribed cut for the next ten years, the sale prices of timber and the expenses of the SFMC. The National Audit Office checked whether the preconditions for the implementation of the methodology have been met and found that its implementation may cause inaccuracies in the report due to the current market conditions and in respect of forests where age division is uneven.

23. When the National Audit Office audited the accuracy of the 2009 annual accounts of the Ministry of the Environment and the legality of transactions, it found that both the state forest and the land under the state forest must be recognised in the balance sheet of the Minister of the Environment. 2010. Forest land was transferred to the SFMC in 2010 and both the state forest and the land under the state forest have been recognised in the balance sheet of the SFMC, not the Ministry of the Environment, since 31 December 2010. The opinion of the National Audit Office is that the state forest and the land under the state forest are an important asset group under the administration of the Ministry and the annual accounts of the Ministry should contain information about the value of the forest as well as of its quantities.

24. The Minister of the Environment did not agree with the National Audit Office's recommendation that both forest and forest land should be recognised in the balance sheet of the Ministry. The Minister did also not agree with the suggestion that accounting methodology should be updated and assets held for non-commercial purposes (protected forests) should be recognised in the balance sheet and explained that this would be in contravention to the idea of the methodology that only the value of assets that can be sold should be accounted for.

25. The National Audit Office maintains its point of view and finds that the state forest and forest land should be recognised in the balance sheet of the Ministry of Environment, because the Ministry is an administrator of state assets pursuant to the State Assets Act. Accounts of assets may still be kept by the SFMC.

26. The National Audit Office also disagrees with the Minister of the Environment about the recognition of assets held for non-commercial purposes in the balance sheet. The National Audit Office believes that assets held for non-commercial purposes should be recognised at their acquisition cost less depreciation and write-downs. The same principle is stipulated in § 47 of the General Rules of State Accountancy.

Problems still found in fines receivable and income accounting in the Ministry of the Interior in 2010

27. The total amount of fines receivable in the Police and Border Guard Board as at 31 December 2010 was 103 million kroons. The fine revenue recognised in the income statement for 2010 totals 138 million kroons.

Internal control of fine accounting is insufficient in the Police and Border Guard Board

28. Last year the National Audit Office made a remark that there were serious omissions in the accounts kept of fine revenue and fines receivable in the Police and Border Guard Board (PBGB), which belongs to the area of government of the Ministry of the Interior. Although the Police and Border Guard Board streamlined fine accounting in 2010, the omissions from the first half of the year forced the National Audit Office to make a remark about the accuracy of the annual accounts of the Ministry of the Interior also in the current year.

29. There were serious omissions in the internal control system of fine accounting in the PBGB in the audited period, i.e. there was no fine accounting procedure, no methodology for comparing fines receivable and received fines recognised in different information systems, the persons responsible for various activities had not been specified, no deadlines were set for preparation and comparison of reports and so on. The weaknesses in the internal control system meant that regular control of data was not guaranteed.

30. The main problem was that the fine revenue and fines receivable recognised in the Police and Border Guard Board's accounting software SAP in 2010 could not be compared with the fine revenue and fines receivable in the fine processing system (MIS) as at 31 December 2010. The accounting data were adjusted in order to guarantee conformity between the data held in the two programmes, but the reasons of the differences in monthly reports and annual reports were not identified.

31. The non-transparency of the accounting was amplified by the fact that the fine reports prepared for the same period at different times gave different results. For example, the amount of uncollectible fines given in a note to the 2010 annual report was 35 million kroons (the amount is based on MIS data for 2010 as at March 2011). 2011. According to a similar fine report prepared in May 2011, the balance of uncollectible fines receivable in 2010 had increased to 87 million kroons. Although this fact had no impact on the accuracy of the annual accounts of the Ministry of the Interior, it does illustrate the essence of the problem.

32. Reports about the status of fine proceedings were received from bailiffs in 2010 and the first half of 2011 as a result of the inventory of fines receivable passed on for execution, and the majority of these were resolution on termination of enforcement proceedings. The PBGB explained that the adjustment of data from year-end lasted until the beginning of June 2011.

33. The database of bailiffs TÄITIS, which is managed by the Ministry of Justice, has still not been connected to the e-file information system, which would preclude the differences concerning fines receivable in the databases of the bailiffs and the police. This is why the PBGB does not have a comprehensive overview of how many of the fines receivable referred to bailiffs have been collected.

34. As the data in the MIS, which are the basis for recognition of fine income and fines receivable in the accounting of the PBGV, could not be compared to the data recognised in accounting, the National Audit Office was unable to obtain assurance that the fine revenue and fines receivable have been comprehensively recognised in the annual accounts as at 31 December 2010.

35. The National Audit Office has discussed the problems detected in the accounting of fines receivable and fine income in the audit report on the accuracy of the 2010 annual report and the legality of the transactions of the Ministry of the Interior.

36. The Minister of the Interior agreed with the remark made by the National Audit Office about the accounting of fines receivable and fine revenue, and explained that the problems will be solved from 2011 to 2012, depending on the results of an analysis and the limitation of ICT development resources.

The unjustified provision formed by the Ministry of the Environment in 2009 is still in the balance sheet

The assets and liabilities recognised by the Ministry of the Environment are larger than they actually are

37. Last year the National Audit Office made a remark to the Ministry of the Environment about the recognition of a **provision** of 338 million kroons in the balance sheet. The provision was included in the balance sheet as cover for the obligation of conditioning two landfills - Kiviõli and Kohlta-Järve industrial waste and semi-coke landfill. As stipulated in the Waste Act, all landfills in use had to meet the established requirements by 16 July 2009 or be closed for waste deposit by the same date. Closed landfills must be conditioned as required by not later than 16 July 2013.

Provision – a liability the emergence of which is certain, but the amount and time of which are not known.

38. The National Audit Office found that there was no basis for recognising the provision in the balance sheet, because the closed landfills must be conditioned according to requirements by not later than 16 July 2013. This means that the **obligating event** will take place in the future. The Ministry has started conditioning the landfill and considering the project deadline specified in contracts, there is no reason to believe that the works will not be completed by 16 July 2013.

Obligating event – an event that creates a legal or factual obligation for a company without the actual option of non-performance of the obligation.

39. The cost of the provision was increased by a total of 108 million kroons in accounting as a result of the economic transactions concluded in 2010 and the amount of the provision recognised in the balance sheet of the Ministry of the Environment as at 31 December 2010 is 446 million kroons. As the costs are financed from the support granted by the European Union, the Ministry of the Environment also recorded short- and long-term receivables (assets) for unreceived targeted financing and income for the support received in its accounting documents alongside the provision (liability) and expenses. This means that assets and liabilities in the state's balance sheet are also bigger by 446 million kroons.

40. The National Audit Office maintains its opinion that the Ministry of the Environment should not recognise the provision in its annual accounts, because the deadline of the obligation has not yet arrived and the National Audit Office sees it as performance of an ordinary obligation entered into with contracts.

41. The Minister of the Environment did not agree with the opinion of the National Audit Office that the provision is incorrectly recognised in the balance sheet. The Minister believes that the existence of the landfill (which occurred as a result of an event that took place in the past) and the fact that the state entered into the obligation to condition both landfills with its activities are the obligating event.

42. The National Audit Office still maintains its opinion that there is no reason to recognise the provision in the balance sheet, because the obligating event has not arrived and the transactions performed must be recognised as ordinary economic transactions.

Observations on the state budget implementation report and the legality of transactions

43. Below are our observations on the state budget implementation report and the most common errors in the legality of transactions. These errors do not affect the National Audit Office's opinion of the legality of transactions as a whole, but do refer to omissions in the internal control system or financial management.

44. The National Audit Office has given detailed explanations of the omissions found and recommendations on how to avoid them in the audit reports and memos sent to state accounting entities.

The principles of drafting the state budget must be streamlined

45. One of the main reports submitted as a part of the state's annual report is the state budget implementation report (hereinafter the SBIR) that contains the revenue, expenditure and financing transactions of state agencies (except the State Forest Management Centre). The SBIR is prepared on the basis of the State Treasury's data on a **cash basis**. The requirement to prepare and submit the SBIR arises from the Accounting Act pursuant to which the SBIR is prepared at least to the extent set out in the state budget for each item of the budget classification in force at the time of the adoption of the state budget.

46. Pursuant to IPSAS 24 (International Public Sector Account Standard 24 "Presentation of Budget Information in Financial Statements"), the budget adopted by the parliament, the final budget and the data of actual implementation of the budget must be presented in a manner that is comparable to the adopted budget. The level of detail of the budget act must be assessed and, if necessary, the information must be submitted more concisely than in the act in order to facilitate reading. The reasons of any significant differences in the planned budget and the actual budget must also be explained. The purpose of submitting the information is to increase transparency of the financial statements of the public sector.

47. The SBIR is less detailed than the act, which in the opinion of the National Audit Office makes it more reader-friendly, and explanations of the differences between the planned budget and the actual budget are sufficient. However, the National Audit Office would still like to point out that the SBIR differs from the 2010 State Budget Act adopted by the Riigikogu both in terms of its content and format. The differences arise from the following circumstances:

- The principles of state budget drafting, the execution of state budget payments and the preparation of accounting reports are different.
- The SBIR is presented in a manner that differs from the State Budget Act 'in picture', so to speak, in order to make it possible to

State budget implementation reports must be comparable to law

Cash-based accounting is recognition of economic transactions only when payment is received or made.

compare and check the SBIR with the annual accounts and to ensure that the actual movement of money is recognised in the report.

- Not all of the revenue and expenditure is planned in the annual State Budget Act: expenditure is incurred on account of support and revenue received from economic activities proceeding from the receipt of revenue and irrespective of which amounts were planned for this purpose in the state budget. However, the actual revenue and expenditure are considered in the SBIR. The same applies to other **calculated expenditure**. According to Note a 31 to the Annual Report of the State, the difference in planned income and actual income received is 2.6 billion kroons.
- The annual state budget acts do not consider the expenditure transferred from the previous year into the next one, the transfer of which is decided by the Minister of Finance. This means that they are not planned into the annual budget, but must be considered in the implementation of the budget. Also, the money allocated to state agencies from reserves and the income paid into reserves are also not planned into the state budget. 2009. The expenditure transferred from 2009 to 2010 amounted to more than 5.3 billion kroons and the expenditure transferred from 2010 to 2011 exceeded 8.2 billion kroons.

48. In addition to these circumstances, some other problems are also evident in budget drafting and reporting on the implementation of the budget:

- The report on the implementation of the budget is based on unconsolidated data, i.e. transactions between state agencies have not been eliminated and are therefore recorded twice under both revenue and expenditure. According to the explanations given, it is impossible to eliminate the transactions concluded between state agencies due to technical reasons. The **consolidated** budget data are also set out in the Annual State Budget Act, but these are not accurate as the calculation of revenue received by state agencies from other state agencies and the expenditure incurred therefrom is approximate. The planned amount of such transactions in the 2010 State Budget Act alone is 1.3 billion kroons, but the actual amount is larger.
- Not all expenditure in the Annual State Budget Act is planned for the agencies that actually pay out the money. As the SBIR is prepared on the basis of the State Treasury's data, the expenditure in the SBIR is indicated for the agencies that actually paid it out (except the social tax transferred to the Estonian Health Insurance Fund, which has been adjusted).

49. The National Audit Office is of the opinion that in order to guarantee the comparability of the State Budget Act and the state budget implementation report, the Ministry of Finance has to adjust the budget drafting principles to guarantee compliance with the State Budget Act and update the technical solutions of monitoring the implementation of the state budget (e.g. e-State Treasury), with the submission of a report about the consolidated budget implementation set as the goal.

Calculated expenditure is

- 1) expenditure the amount of which arises from the Act;
- 2) expenditure that depends on specific revenue pursuant to the proposal made by the Government of the Republic.

All revenue and expenditure items are only recorded once in the **consolidated report**.

50. Suggestion of the National Audit Office to the Minister of Finance: Adjustment of the budgeting principles must continue, and the observations made by the National Audit Office should thereby be considered.

Response of the Minister of Finance: We agree with the observations made by the National Audit Office and will consider them. We will continue adjusting the budgeting principles, incl. within the scope of the ongoing financial accounting standardisation project.

Budget planning in ministries must be improved

51. The results of the financial audit prepared by the National Audit Office for 2010 indicated that ministries and the agencies in their areas of government have not always adhered to the requirements set forth in the State Budget Act. For example:

- Pursuant to the State Budget Act, state agencies have the right to incur expenses only if money has been allocated for them in the budget. The National Audit Office found fewer errors in the expedient use of the budget in 2010. Similarly to previous years, the National Audit Office found in 2010 that state agencies have used the budget funds allocated for **management expenses** to make **investments** and used the money allocated for investments to cover management expenses. However, the number and amount of the errors is smaller than in previous years.

The National Audit Office is of the opinion that such breaches reduce the transparency of the state budget and must therefore be condemned. The National Audit Office has emphasised in its audits that an agency should apply for amendment of the Annual State Budget Act for the sake of the clarity and comparability of budget reporting if the agency finds that it is necessary to spend its money differently than initially planned.

- The State Budget Act prohibits state agencies to take loans, use **finance lease** and enter into other **long-term liabilities**, unless this is prescribed in the state budget. If a state agency wants to perform such transactions and enter into contracts, they must be prescribed as **financing transactions** when the annual budget is drafted. Otherwise, the performance of such transactions is in contravention to the State Budget Act.

The audits conducted by the National Audit Office indicated that many state agencies enter into finance lease contracts to lease office equipment and vehicles, which is not permitted by law. In recent years, they have also started entering into lease contracts that cannot be terminated, which means that the state agencies cannot terminate the lease contracts early without having to pay all of the outstanding lease payments, the residual value of the leased object as at the expiry of the lease contract and the financing costs to the lessor. Note a 30 to the Unconsolidated Annual Report of the State indicates that the state's lease obligations that cannot be terminated total 4 billion kroons.

Fewer errors in the interpretation of the State Budget Act

Expenses incurred in the daily operations of an agency are **management expenses**.

Acquisition and renovation of tangible and intangible assets are **investments made from the budget**.

Finance lease is a lease where all significant risks and benefits related to the ownership of the asset in question are transferred to the lessee. The ownership may but need not transfer in the end.

Long-term liability is a debt,

- which emerged as a result of a past event,
- the release from which is likely to require giving up resources in the future, and
- which will be repaid over a period that is longer than one year.

Financing transaction is a transaction aimed at covering the difference between state budget revenue and expenditure, which recognises changes in financial assets and liabilities. Financial assets are deposits, loans granted, securities purchased and other similar assets. Liabilities are loans taken, securities issued and other similar liabilities.

The obligations assumed with contracts entered into under finance lease terms must be added to financing transactions when the budget is drafted. The opinion of the National Audit Office is that any obligations to be assumed with lease contracts that cannot be terminated must also be separately set forth in the budget and these contracts may not be signed unless otherwise provided for in the State Budget Act. Since such contracts are usually (according to past practice) not terminated early, then it is important that the long-term obligations assumed with these contracts are clearly distinguished in the budget.

52. Similarly to previous years, the National Audit Office found errors in the manner ministries plan their budgets. For example:

- The Ministry of Economic Affairs and Communications planned more money for investments in its budget for 2010 than it managed to spend. The investment budget was implemented only to the extent of 65% (according to the e-State Treasury, the total investment budget amounted to 3.6 billion kroons and cash expenses to 2.3 billion kroons). Not a single payout had been made from the 217.3 million kroons planned for three **investment objects** in the budget. The Ministry also estimated that 28.4 million kroons will be received into the budget as revenue from economic activities, but the actual amount received was 63.1 million kroons.

Investment objects – objects in the list of acquisitions and renovations of tangible and intangible fixed assets of agencies, which is approved by the Government of the Republic.

The National Audit Office believes that such under-planning of revenue is an error also made by other state agencies apart from the Ministry of Economic Affairs and Communications. This is illustrated by the fact that the revenue state agencies planned to earn, according to the budget for 2010, 627 million kroons, but they actually earned 185 million kroons (or 29%) more than planned. Such under-planning of revenue may be favoured by the option stipulated in the State Budget Act, which permits state agencies to use collected revenue according to its actual receipt without having to justify the need to incur these expenses in advance.

- In respect of the Ministry of Defence, the National Audit Office can claim for the second year running that the system for planning defence equipment is contradictory and needs to be specified. The total defence equipment budget in 2010 was 909.2 million. Pursuant to the effective procedure, acquisitions of defence equipment are planned fully under management expenses, irrespective of whether investments are made or management expenses are incurred. The National Audit Office believes that the same budgeting principles must be observed in the entire state, which prescribe that investment and management expenses must be distinguished. The planning and use of the defence equipment budget in the Ministry of Defence are not transparent, because these expenses have not been distinguished.

53. The omissions in budgeting are probably caused by insufficient analysis in the planning stage and unclear budgeting (incl. budget amendment) principles. Even if the actual expenses incurred in the year differ from the planned expenses, it is important that the state budget is adjusted during the year to ensure its transparency.

54. Recommendations of the National Audit Office to the Minister of Finance:

- The content of financing transactions must be specified in the annual directive on the terms and deadline for drafting the budgets of ministries. The money required for servicing lease contracts that cannot be terminated must be distinguished in the budget and entering into such contracts must be permitted only if money is allocated for this purpose in the budget.
- The budgeting principles must be explained to ministries and state agencies, incl. the option to amend the Annual State Budget Act and the procedure and principles of making such amendments, and they must be determined if necessary.

Response of the Minister of Finance: We will review the need to distinguish the expenses required for servicing lease contracts that cannot be terminated and made our decision when we prepare the directive on the terms and deadlines for drafting the budget for 2013.

We agree that the principles of budgeting and amendment of the State Budget Act must be regularly explained to the ministries.

The Public Procurement Act has been breached

Pursuant to the Public Procurement Act effective in 2010, a public procurement had to be organised if the expected cost of the procurement contract without VAT was

- 1) 40,000 euros in the case of a procurement contract for objects and services, and design contests,
- 2) 250,000 euros or more in the case of construction works or public works concession.

The Public Procurement Act is still not properly adhered to

55. The National Audit Office audited whether the Public Procurement Act had been adhered to in all ministries, constitutional institutions and the State Treasury in respect of acquisitions. The principles of the State Budget Act had generally been followed in respect of the audited acquisitions, but there were also several breaches. The number of breaches was the highest in the areas of government of the Ministry of the Interior and the Ministry of Defence. The most common errors were as follows:

- Public procurement was not organised when necessary. This error was identified in the Ministry of the Interior, the Ministry of Defence, the Ministry of Economic Affairs and Communications, and the Ministry of Culture.
- Procurement was divided into parts. This error was identified in the Ministry of Defence, the Ministry of the Interior and the Ministry of Agriculture.
- The public procurement process was not documented as required. This error was identified in the Ministry of Defence, the Ministry of Agriculture and the Ministry of Finance.
- Procurement reports were not submitted for procurements below the limit. This error was identified in the Ministry of Defence, the Ministry of Education and Research, the Ministry of Culture and the Ministry of the Environment.

56. The breaches of the Public Procurement Act, the majority of which occurred in the divisions operating in the areas of government of ministries, suggest that the system for planning, processing and supervision of public procurements is weak. The amendments made to the Public Procurement Act

Did you know that

since 2012 the contracting authority establishes its internal procurement procedure (if the expected total cost of the objects and services to be procured exceeds 80,000 euros or the expected total cost of the construction works exceeds 500,000 euros).

Among others, the procurement procedure regulates

1) the planning of the public procurement, and the planning and approval of the annual procurement plan;

2) the appointment of persons responsible for the public procurement, incl. for the performance of the procurement contract;

3) organisation of public procurements that remain below the limit in order to guarantee adherence to the principles of public procurements;

4) organisation of services ordered by simplified procedure.

- specify the tasks of the Ministry of Finance in exercising supervision and make it responsible for the organisation of training (the National Audit Office made the relevant recommendation in its report for 2009);
- and stipulate that since 2012, it is mandatory for agencies/contracting authorities to prepare procurement procedures, which prescribe the preparation of an annual procurement plan and the appointment of persons responsible for procurements.

57. The National Audit Office finds that the Ministry of Finance has observed the recommendations made and taken appropriate measures that are clearly aimed at improving the organisation of public procurements concerning all contracting authorities.

Observations about financial management of the state

58. Similarly to previous years, we give you an overview of how the financial position of the state has changed in the year.

State reserves decreased also in 2010

59. 2009. The state used its reserves in 2009 and borrowed to finance its activities. 3.5 billion kroons was withdrawn from the Stabilisation Reserve Fund in 2009 to cover the state budget deficit. The pension reserve decreased by 3 billion kroons in 2009, because the reserve was used to pay state pensions.

60. The state also continued using its reserves in 2010 and the value of the reserves decreased by 3.3 billion kroons (to 19 billion kroons) in comparison to the previous year. 2010. Reserves were used for expenses in 2010. Available state budget funds or the cash reserve therefore decreased by 2.2 billion kroons. The extraordinary reserve of the National Pension Fund in the amount of 1.9 billion kroons was also used up, as pension payments exceeded the amount of social tax received. As shown in Table 1, the cash reserve of the state budget has decreased also in the first half of 2011.

61. The Stabilisation Reserve Fund increased by 288 million kroons in 2010, as financial income from investing the reserve and the profit of the Bank of Estonia gave 197 million kroons, and 91 million kroons was earned from the privatisation of land.

62. An overview of changes in the reserves administered by the State Treasury is given in Table 1.

Table . Changes in reserves administered by State Treasury (kroons)

Name of reserve	Market value				
	31.12.2007	31.12.2008	31.12.2009	31.12.2010	30.06.2011
Stabilisation Reserve Fund	6,409,139,159	7,197,262,145	4,722,091,641	5,010,488,727	5,070,361,967
Cash reserve of state budget assets, incl.	14,981,017,638	8,271,032,826	14,143,349,898	10,691,251,014	12,334,454,439
cash reserve of state budget + available funds	8,825,425,752	2,157,422,544	9,749,793,572	7,569,487,211	5,541,950,945
reserve funds for ownership reform	372,597,379	426,438,838	436,139,295	441,769,511	467,233,355
extraordinary reserve of National Pension Fund	4,784,374,698	4,784,374,698	1,858,162,356	0	0
funds of State Treasury's clients	998,619,809	902,796,746	2,099,254,675	2,679,994,292	6,325,270,139
reserve capital of Health Insurance Fund*	458,055,219	483,884,491	825,852,216	838,071,476	842,687,383
cash reserves of Health Insurance Fund*	2,548,904,075	2,971,558,376	2,297,588,880	2,142,112,366	1,964,539,185
reserve capital of Unemployment Insurance Fund*	251,819,134	304,152,809	333,294,401	339,428,369	393,488,586
TOTAL STATE TREASURY	24,648,935,225	19,227,890,648	22,322,177,036	19,021,351,952	20,605,531,559

* The State Treasury also administers the Health Insurance Fund's cash reserves and reserve capital, and the Unemployment Fund's reserve capital.

Source: State Treasury Department of the Ministry of Finance

The state did not assume additional loans in 2010, but it did enter into finance lease contracts

Did you know that

loans assumed and finance lease contracts entered into are recognised as loans payable.

63. The loans payable by the state include loans assumed, bonds issued and obligations assumed with finance lease contracts. The states unconsolidated balance of loans payable as at 31 December 2010 was 4.1 billion kroons, which increased by 21 million kroons in comparison to the previous reporting period. The loans taken by the state comprise approximately two-thirds of the state's loans payable and their balance has decreased by 103 million kroons as at the end of the reporting period. The state issued no bonds and entered into no new loan contracts in the reporting period, but it did increase its finance lease payables.

64. A loan agreement for borrowing 550 million euros or 8.6 billion kroons was entered into with the European Investment Bank in 2009 on the basis of a resolution of the Government of the Republic. 165 million or 2.6 billion kroons of this was drawn down in 2009 and must be repaid in the next 13 years. No additional money was drawn down from the loan amount agreed with the EIB in 2010. The loan from the EIB was taken for financing the programmes of the National Development Plan for 2007-2013, the co-financing of the Cohesion Fund project (Tallinn-Narva road) and for financing 60 road projects. The loan from EIB was taken for specific projects and the entire loan amount has therefore not been drawn down. According to the loan agreement, the state must start repaying the loan in 2012, but payment of interest on the loan started immediately after the drawdown and interest payments in 2010 totalled 31.8 million kroons.

65. 31.12.2010. The state guaranteed loans granted as at 31 December 2010 totalled 114.9 million kroons. The balance of the loans guaranteed

by the state increased by 48 million kroons in comparison to the previous year. The Republic of Estonia has also entered into guarantee contracts with the Nordic Investment Bank on the basis of which it guarantees project-based investment loans and securities of up to 205.6 million and environmental investment loans and securities of up to 34.3 million kroons.

66. 2010. The largest permitted loan balance pursuant to the 2010 State Budget Act was 15 billion kroons for the budget loan and 5.5 billion kroons for the cash loan. 2010. The loans taken in 2010 with the loan balances transferred from previous years and the guarantees issued by the state did not exceed the limits established with the State Budget Act.

67. Information about the financial impact of the mergers of the European Financial Stability Facility as well as the European Stability Mechanism is disclosed in Note a 32 to the Consolidated Annual report of the State.

/digitally signed/

Ines Metsalu
Audit Director, Financial Audit Department

Recommendations made by National Audit Office and responses of the auditee

On the basis of the audit, the National Audit Office gave several recommendations to the Ministry of Finance. Minister Jürgen Ligi sent his response to the recommendations made by the National Audit Office on 1 August 2011.

General comments on the audit report	
<p>The Minister of Finance finds that the annual report of the National Audit Office on the Consolidated Annual report of the State gives a summary of the most significant observations about the state's financial reporting, and helps eliminate omissions and develop the state's financial management system further.</p> <p>The Minister of Finance thanks the National Audit Office for its constructive and pleasant cooperation and wishes for it to continue in the next reporting period.</p>	
Recommendations of the National Audit Office	Responses of the auditee
<p>Centralisation of accounting</p> <p>15. Recommendations of the National Audit Office to the Minister of Finance:</p> <ul style="list-style-type: none"> ▪ The IT developments should be completed before new ministries are added to the project. ▪ The centralisation of accounting should be organised in such a manner that the internal control system associated with the new organisation of work is specified and the tasks related to the changes are explained to all parties. ▪ The existence of sufficient and timely IT support in the service units that are undergoing centralisation must be guaranteed, e.g. it should be possible to send an SAP consultant to the service unit and organise SAP training in several stages. <p>(items 10-15)</p>	<p>Response of the Minister of Finance: The initial schedule according to which areas of government join the project has been amended. 2011. The agencies where preparation of the project started in the first half of 2011 will be transferred to centralised accounting and SAP in 2011. 2012. No centralisations and transfers to SAP have been planned for 2012, because this is when we focus on preparing the standardised version of the SAP so we can start using it from 1 January 2013. We will also prepare and implement the self-service portal in 2012. We will continue cooperating with the agencies that have not been transferred to the SAP by 1 January 2010 in order to transfer them to centralised organisation of work and the SAP in 2013 and 2014.</p> <p>In our opinion, the tasks upon the transfer to the centralised organisation of work are specified in sufficient detail with activity models and the annexes belonging thereto. The explanations given immediately after the transfer to the new centralised organisation of work mainly indicate uncertainty about the implementation of new software and changes in the division of work. Our surveys show that people have overcome this after the transition period and now understand the positive results of the project.</p> <p>It is true that training is the most effective when given in the course of work, and we have offered it by sending consultants to the agencies as well as giving advice by telephone and e-mail. We are reviewing the options of offering user support and will also consider the organisation of follow-up training as suggested by you.</p>
<p>State budget drafting</p> <p>50. Suggestion of the National Audit Office to the Minister of Finance: Adjustment of the budgeting principles must continue, and the observations made by the National Audit Office should thereby be considered.</p> <p>(items 45-50)</p>	<p>Response of the Minister of Finance: We agree with the observations made by the National Audit Office and will consider them. We will continue adjusting the budgeting principles, incl. within the scope of the ongoing financial accounting standardisation project.</p>
<p>Budget planning</p> <p>54. Recommendations of the National Audit Office to the Minister of Finance:</p> <ul style="list-style-type: none"> ▪ The content of financing transactions must be specified in the annual directive on the terms and deadline for drafting the budgets of ministries. The money required for servicing lease contracts that cannot be terminated must be distinguished in the budget and entering into such contracts must be permitted only if money is allocated for this purpose in the budget. ▪ The budgeting principles must be explained to ministries and state agencies, incl. the option to amend the Annual State Budget Act and the procedure and principles of making such amendments, and they must be determined if necessary. <p>(items 51-54)</p>	<p>Response of the Minister of Finance: We will review the need to distinguish the expenses required for servicing lease contracts that cannot be terminated and made our decision when we prepare the directive on the terms and deadlines for drafting the budget for 2013.</p> <p>We agree that the principles of budgeting and amendment of the State Budget Act must be regularly explained to the ministries.</p>

Overview of the Consolidated Annual Report of the State

The Consolidated Annual Report of the State has been prepared pursuant to the State Budget Act and the Generally Accepted Accounting Principles of Estonia. The Consolidated Annual Report of the State comprises the state's annual accounts with the state budget implementation report (i.e. the state's consolidated and unconsolidated report), additional information about local governments, the public sector and the government sector.

The accounts of 17 state accounting entities with the agencies in their areas of government, the State Forest Management Centre, 59 foundations under the control of the state and 36 subsidiaries are consolidated into the consolidated annual accounts of the state. Additional information is given about 226 local authorities, and the indicators of the foundations, non-profit organisations and subsidiaries under their control are also included. On top of the above, additional information about the government sector and public sector also contains legal entities in public law and entities under their direct or indirect control (see Figure 1).

The Minister of Finance is responsible for the preparation of the Consolidated Annual Report of the State and state accountancy is organised by the State Accounting Department of the Ministry of Finance.

Figure 1. Entities consolidated in the Consolidated Annual Report of the State

Consolidated financial statement of the public sector (additional information)			
Consolidated financial statement of the government sector (additional information)			
<p>Consolidated Annual Report of the State</p> <p>State accounting entities (ministries with their areas of government, the State Chancellery and constitutional institutions)</p> <p>Profit-making state agencies</p> <p>State's subsidiaries (companies)</p> <p>Foundation under the state's control</p>	+ Local authorities	+ Legal entities in public law	<p>+ Bank of Estonia</p> <p>Guarantee Fund</p> <p>Chamber of Notaries</p> <p>Estonian Board of Auditors</p> <p>Bar Association</p> <p>Development Fund</p>

Description of the audit

Reason and objective of the audit

Pursuant to the State Budget Act, the National Audit Office must give its opinion of the accuracy of the Consolidated Annual Report of the State and the legality of transactions. In order to perform this obligation, the National Audit Office audits the accuracy of the accounting and the legality of the transactions of state accounting entities.

The objective of the audit is to express an opinion on the accuracy of the Consolidated Annual Accounts of the State for 2010 and the legality of transactions. The annual accounts of the state consist of the state's consolidated and unconsolidated balance sheet as at 31 December 2010, the consolidated and unconsolidated income statement, the cash flow statement, the report on the changes in net assets for the

financial year ended at 31 December 2010, the state budget implementation report, the summary of the important accounting policies and procedures used in the preparation of the report and other explanatory notes.

Principles of expressing an opinion

The opinion of the National Audit Office on the accuracy of the annual accounts of the state and the legality of transactions means that

- the annual accounts are correct if they were prepared according to the Generally Accepted Accounting Principles and the Accounting Act, and disclose all of the significant information that gives a true and fair view of the state's financial status; and
- transactions are legal if performed in compliance with the State Budget Act, the 2010 State Budget Act and the 2010 State Budget Act Amendment Act.

Observations made in the report are findings which due to the irrelevance of the amounts and the circumstances related to the appearance thereof did not affect the opinion of the National Audit Office as regards the accuracy of the annual accounts and the legality of transactions, but which could result in significant errors in the annual accounts or legality of transactions in the case of different conditions.

Scope of the audit

In the course of giving an opinion on the accuracy of the state's 2010 annual accounts, the National Audit Office evaluated the compliance of the annual accounts with the Generally Accepted Accounting Principles of Estonia. The Generally Accepted Accounting Principles are based on internationally recognised accounting policies and procedures (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 of State Accountancy.

In order to express an opinion on the legality of transactions, the National Audit Office audited whether or not the transactions of state agencies have been performed in accordance with the State Budget Act, the 2010 State Budget Act and the 2010 State Budget Act Amendment Act in all material respects. For this purpose the National Audit Office focussed on the expediency and transparency of state budget implementation by checking the expedient use of the investments and labour expenses of state agencies, their adherence to the budget, and the justification of prepayments and expenses.

In addition to expressing an opinion on adherence to the State Budget Act the National Audit Office paid attention to adherence to the main principles of the Public Procurement Act and the State Assets Act when auditing legality. For this purpose it checked, on a random basis, whether the procedure stipulated in the Public Procurement Act was followed in the case of acquisitions that exceeded the limit and whether the main principles of public procurements had been adhered to in respect of smaller acquisitions, and evaluated whether assets had been used, preserved and transferred prudently.

Limitations of the scope

The annual accounts of the state contain the financial indicators of public undertakings, foundations controlled by the state and profit-making state agencies. The annual accounts of foundations, companies and profit-making state agencies were evaluated by certified auditors, who audited the annual accounts but not the legality of transactions. The opinions of certified auditors are given in Notes 2 and 3.

The National Audit Office did not audit the management report presented as a part of the Consolidated Annual Report of the State, but it did audit the correspondence of the figures given in the management report to those presented in the annual accounts.

The National Audit Office did not audit, but did review the additional information about local authorities, the public sector and the government sector disclosed in the Consolidated Annual Report of the State.

Use of the work of others

In order to give an opinion of the 2010 Consolidated Annual Report of the State, the National Audit Office conducted audit activities in transaction classes that are important from the viewpoint of the consolidated report either itself or on the basis of the work of internal or certified auditors. Pursuant to the State Budget Act, the annual report of a state accounting entity must be audited by the person responsible for internal control in the relevant state accounting entity, who must give an opinion of the accuracy of the annual report of the state accounting entity and on the legality of transactions. Whenever the National Audit Office used the work of internal auditors while auditing ministries, it coordinated the audit plan and risk assessment with these auditors and reviewed their work.

The accuracy of the annual accounts of foundations established by the state, public undertakings, profit-making state agencies, legal entities in public law and local authorities was audited by certified auditors. The National Audit Office proceeded from the opinions of certified auditors when expressing its opinion on the Consolidated Annual Report of the State.

Scope of audit

The National Audit Office performed the audit in accordance with the Audit Standards of the International Organisation of Supreme Audit Institutions, which regulate auditing financial statements as well as the legality of transactions within the scope of auditing financial statements. These standards require that an audit be planned and performed in a manner that allows the auditor to decide with sufficient assurance that the financial statements are free of any material misstatements and that transactions comply with the aforementioned legislation in all material respects. During the audit evidence was collected about the figures presented and the information disclosed in the annual accounts. The relevance of the accounting principles and procedures used, the justification of the accounting assessments made by the management and the general manner of presentation of the annual accounts were also assessed in the course of the audit.

The National Audit Office believes that the audit provides a sufficient basis for expressing an opinion on the accuracy of the annual accounts and the legality of transactions.

Time of completion of audit

The audit was completed in July 2011.

Audit team

Auditors of the Financial Audit Department and auditors of the Local Government Audit Department took part in the audit, and the audit was managed by Krista Zibo, Audit Manager of the Financial Audit Department.

Contact information

Contact the Communication Service of the National Audit Office of Estonia for further information telephone: +372 640 0704 or +372 640 0777, e-mail: riigikontroll@riigikontroll.ee.

An electronic copy of the audit report (pdf) is available on the website at www.riigikontroll.ee.

A summary of the audit report is available also in English.

The number of the audit report in the internal records system of the National Audit Office is 2-1.8/11/60026/30.

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Earlier audits of the annual report of the state by the National Audit Office

31.08.2010 – Report of the National Audit Office on the 2008 Consolidated Annual Report of the State

28.08.2010 – Report of the National Audit Office on the 2008 Consolidated Annual Report of the State

28.08.2008 – Report of the National Audit Office on the 2007 Consolidated Annual Report of the State

28.08.2007 – Audit Report of the National Audit Office on the 2006 Consolidated Annual Report of the State

28.08.2006 – Audit Report of the National Audit Office on the 2005 Consolidated Annual Report of the State

28.08.2005 – Audit Report of the National Audit Office on the 2004 Consolidated Annual Report of the State

All reports are available on the homepage of the National Audit Office at www.riigikontroll.ee

Note 1. Results of the audit of ministries and state agencies

Agency	Total assets as at 31.12.2010 (thousand kroons)	Opinion of the National Audit Office
Riigikogu	318,398	Audit report without remarks
President of the Republic	84,237	Audit report without remarks
Chancellor of Justice	1,441	Audit report without remarks
Supreme Court	28,381	Audit report without remarks
State Chancellery	219,578	Audit report without remarks
Ministry of Education and Research	5,720,323	Audit report without remarks
Ministry of Justice	1,881,579	Audit report without remarks
Ministry of Defence	6,319,745	Audit report without remarks
Ministry of the Environment	22,426,377	Audit report with a remark
Ministry of Culture	3,516,022	Audit report without remarks
Ministry of Economic Affairs and Communications	54,428,704	Audit report without remarks
Ministry of Agriculture	2,516,941	Audit report without remarks
Ministry of Finance	35,602,962	Audit report without remarks
Ministry of the Interior	5,238,739	Audit report with a remark
Ministry of Social Affairs	3,462,368	Audit report without remarks
Ministry of Foreign Affairs	1,296,962	Audit report without remarks

Note 2. Results of the audit of 100% state-owned foundations

Foundation	Total assets as at 31.12.2010 (thousand kroons)	Auditor	Opinion
Estonian Cooperation Assembly	338	TPMM Nordic OÜ	Opinion with an emphasize of matter paragraph but without a remark
Tiger Leap Foundation	11,791	Rimess OÜ	Opinion without remarks
Estonian Science Foundation	82,868	1st Audit OÜ	Opinion without remarks
Estonian Information Technology Foundation (group)	108,076	Rimess OÜ	Opinion without remarks
Foundation for Lifelong Learning Development INNOVE	465,425	Deloitte Audit Eesti AS	Opinion without remarks
Estonian Qualification Authority (formerly Qualification Foundation)	6,985	Arvur Audit OÜ	Opinion without remarks
Archimedes Foundation	980,491	Rimess OÜ	Opinion without remarks
AHHAA Science Centre	200,183	OÜ Audiitorbüroo PROFITIUS	Opinion without remarks
Sports Training and Information Foundation	14,587	Villems & Partnerid OÜ	Opinion without remarks
International Centre for Defence Studies	3,469	KL Partners OÜ	No opinion given
Private Forest Centre	21,004	Rimess OÜ	Opinion without remarks
Integration and Migration Foundation Our People (formerly Integration Foundation)	30,706	Rimess OÜ	Opinion without remarks
Old Town Theatre House Foundation	9,685		No audit obligation
Estonian Film Foundation (group)	18,255	Rödl & Partner Audit OÜ	Opinion without remarks
Tartu Jaani Church Foundation	7,945	E-Audit OÜ	Opinion without remarks
Museum Building Foundation	87,180	KMRA Audiitorbüroo OÜ	Opinion without remarks
Estonian Song and Dance Celebration	13,038	KMRA Audiitorbüroo OÜ	Opinion without remarks
Unesco Estonian National Committee	205	Antimar Audiitorid OÜ	Opinion without remarks
Narva Aleksandri Church Foundation	13,195	Certified Auditor Tatjana Zaitseva	Opinion without remarks
Cultural Publications	10,003	Ann Närep Audiitorühing OÜ	Opinion without remarks
Estonian Drama Theatre	246,464	Rödl & Partner Audit OÜ	Opinion without remarks
Rakvere Theatre House	73,715	OÜ Kivistik Consult	Opinion without remarks
Russian Theatre	200,300	KMRA Audiitorbüroo OÜ	Opinion without remarks
Tehvandi Sports Centre	297,860	E-Audit OÜ	Opinion without remarks
Virumaa Museums	52,791	PKF Estonia OÜ	Opinion without remarks
Ugala Theatre	78,806	OÜ Kivistik Consult	Opinion with a remark
Jõulumäe Recreation Centre	46,304	OÜ Allika Audiitor	Opinion without remarks
Estonian National Museum Construction Foundation	17,221	PKF Estonia OÜ	Opinion without remarks
Enterprise Estonia	875,279	Rimess OÜ	Opinion without remarks
State Infocommunication Foundation	80,311	Ernst & Young Baltic AS	Opinion without remarks
Environmental Investment Centre	2,378,331	Ernst & Young Baltic AS	Opinion without remarks

Source: auditeeritud 2010. a majandusaasta aruanded

Note 3. Results of the audit of public undertakings

Undertaking	Holding (%)	Total assets as at 31.12.2010 (thousand kroons)	Auditor	Opinion
Riigi Kinnisvara AS (group)	100	4,410,851	Ernst & Young Baltic AS	Opinion without remarks
AS Hoolekandeteenused	100	266,785	Audiitorbüroo RKT OÜ	Opinion without remarks
Eesti Energia AS (group)	100	28,853,600	PricewaterhouseCoopers AS	Opinion without remarks
Tallinna Sadam AS (group)	100	7,981,517	Ernst & Young Baltic AS	Opinion with a remark
Eesti Post AS (group)	100	670,268	Ernst & Young Baltic AS	Opinion with a remark
Tallinna Lennujaam AS (group)	100	2,214,558	PricewaterhouseCoopers AS	Opinion without remarks
Lennuliiklusteeninduse AS	100	282,567	KPMG Baltics OÜ	Opinion without remarks
Saarte Linid AS	100	815,796	Ernst & Young Baltic AS	Opinion without remarks
AS Levira	51	378,058	Ernst & Young Baltic AS	Opinion without remarks, financial year of 1.4.2010–31.3.2011
Eesti Loots AS	100	280,800	Rödl & Partner Audit OÜ	Opinion without remarks
Elektriraudtee AS	100	374,880	KPMG Baltics OÜ	Opinion without remarks
Teede Tehnokeskus AS	100	46,826	Baker Tilly Baltics OÜ	Opinion without remarks
Metrosert AS	100	24,588	BDO Eesti AS	Opinion without remarks
AS Eesti Vedelikutevaru Agentuur	100	2,145,697	Rödl & Partner Audit OÜ	Opinion without remarks
A.L.A.R.A. AS	100	18,804	Rödl & Partner Audit OÜ	Opinion without remarks
Eesti Raudtee AS (group)	100	4,417,739	KPMG Baltics OÜ	Opinion without remarks
Tartumaa Teed AS	100	61,943	Kagu-audit OÜ	Opinion without remarks
Pärnumaa Teed AS	100	84,837	Audiitorbüroo Roy Vaimand OÜ	Opinion without remarks
Virumaa Teed AS	100	44,537	Ülase Raamatupidamisteenus OÜ	Opinion with an emphasize of matter paragraph but without a remark
Võrumaa Teed AS	100	73,371	Kagu-audit OÜ	Opinion with an emphasize of matter paragraph but without a remark
Saaremaa Teed AS	100	45,134	Audiitorfirma Klea OÜ	Opinion without remarks
KredEx Krediidikindlustus AS	100	349,356	KPMG Baltics OÜ	Opinion without remarks
Eesti Keskkonnauuringute Keskus OÜ	100	93,468,364	BDO Eesti AS	Opinion without remarks
Eesti Geoloogiakeskus OÜ	100	22,394	HLB Expertus Audit OÜ	Opinion without remarks
AS Eesti Metsataim	60	34,703	Rimess OÜ	Opinion without remarks
Eesti Kaardikeskus AS	100	6,260	Audiitorbüroo Silvia Sirel OÜ	Opinion without remarks
Eesti Loto AS	100	131,592	KMRA Audiitorbüroo OÜ	Opinion without remarks
AS Vireen (formerly Loomsete Jäätmete Käitlemise AS)	100	72,693	Pluss Kümme OÜ	Opinion without remarks

OÜ Eesti Näitemänguagentuur	89	593	Dison OÜ	Opinion without remarks with attention drawn to a fact
Eesti Vanglatööstus AS	100	19,193	Villems & Partnerid OÜ	Opinion without remarks
AS Erika Neli	100	6,802	Audiitorbüroo RKT OÜ	Opinion with remarks
Andmevara AS	100	13,739	KMRA Audiitorbüroo OÜ	Opinion without remarks
Estonian Air AS	90	783,191	Deloitte Eesti Audit AS	Opinion without remarks
Ökosil AS	35	6,522	Ernst & Young Baltic AS	Opinion without remarks
Elering AS	100	6,562,070	PricewaterhouseCoopers AS	Opinion without remarks
State Forest Management Centre	100	18,183,377	Ernst & Young Baltic AS	Opinion with an emphasize of matter paragraph but without a remark

Source: audited annual reports for 2010