Organisation of forming and preserving the State Grain Reserve

Audit Report No OSIV-2-6/05/60 of June 29, 2005

Executive Summary

It was identified in 2004 that 14,923 tons of grain with the value of 27.9 million kroons had been stolen from the state security stock. Wishing to clarify if and how much this was influenced by the overall organisation of State Grain Reserve, the SAO audited it the same year. The evaluations and proposals of the audit mostly concurred with those of the Minister of Agriculture, who provided specific instructions for improving the administration of State Grain Reserve.

With the audit that was planned for 2005, the SAO wished to gain an overview of how much the measures implemented by the Minister had improved the actual organisation of the Grain Reserve, especially – whether the Ministry of Agriculture as a stockholder and Estonian Grain Board as a stock manager have done everything in their power to ensure the quantitative and qualitative and quality preservation of the stock.

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At the end of the audit, the SAO can state that the procedure established by the Minister of Agriculture for forming, managing and replenishing of the security stock regulates most of the operations related to the security stock of grain.

During the audit the storage spaces of state grain were closed, sealed, numbered and recorded in inventory reports. State reserve had been checked every calendar quarter in every storage facility. The conditions for the preservation of state grain were satisfactory.

In the opinion of the SAO, the situation in the organisation of state grain reserve is significantly better than a year ago, but it is still not certain if the entire grain stock is still there. The SAO finds it necessary to draw attention to several risks that have still not been sufficiently managed. Some of them arise from the organisation of stock-related operations, others from incorrect decisions.

- The organisation of the security stock of grain does not comply with several provisions.

Government has not approved the assortment of the security stock of food grains and or minimum and maximum amounts, although respective requirement has been a part of National Stockpiles Act for almost seven years. The Ministry of Agriculture has therefore, exceeding the limits of competence, itself determined both the size of the security stock and nomenclature.

- Concerning the stowing the stock, reducing security risks has not been taken into consideration.

Two thirds of the stock are stored in one place. Neither the security stock's actual manager Estonian Grain Board nor the managers of the companies who store the grain in their storage facilities have been authorised to work with state secrets (data related to security stock is a state secret).

- It is not certain if the security stock holds as much grain as it is supposed to according to the documents.

In 2004, major part of the grain bought into the state reserve was accepted without any previous weighing by the representative of the buyer (Estonian Grain Board). The former methods used for checking the quantitative preservation of a stock stored in that way do not enable to clarify the actual volume of the stock.

- No guarantees are required from the actual depositaries of the security stock.

Estonian Grain Board stores the grain stock in storage facilities belonging to other companies, in the contracts signed with them, it has not required any guarantees if the grain should perish. And although

the state could require the insurance of stock (bearing the insurance costs itself) pursuant to the contract signed with the Estonian Grain Board, it has not done so.

- Replenishment of the stock has not been economical.

In the last years, the stock has been replenished frequently without basis (every one or two years), which is not economically reasonable. In the auctions held from 2002 to 2005, the stock of food grains that is less than three years old has been sold in the value of 19.6 million kroons. At the same time, the buying-in-prices of grain have significantly exceeded its selling price, and also the market price of grain.

- In 2004, Estonian Grain Board unlawfully transferred part of the grain in security stock.

At the end of March, 2004, the Commission established by the Minister registered the rye remaining in the security stock of Rakvere Grain Board and directed it to the elevator AS Antomin in Tamsalu. On the oral authorisation of the director of Estonian Grain Board, 36 tons of this rye was given to AS Kesko Agro Eesti for free; the amount of grain registered as state security stock was decreased by this amount. Estonian Grain Board explained the transfer of the grain to AS Kesko Agro Eesti claiming that the mentioned grain's quality did not meet the requirements of the state reserve. The audit did not show whether the analysed grain came from the storage facilities in Rakvere Estonian Grain Board did not explain to the SAO why part of the grain was transferred to AS Kesko Agro Eesti even before receiving the analysis results of the grain's quality. Neither did the audit discover the reasons why the grain allegedly of a bad quality was assigned namely to AS Kesko Agro Eesti and not anyone else. The SAO turned to the police in order to clarify these operations of Estonian Grain Board.

- The Director and the Chairman of the Board of Estonian Grain Board belong to the directing bodies of such companies with whom Estonian Grain Board directly or through the mediation of other persons has concluded transactions relating to the grain of security stock.

Major proposals to the Minister of Agriculture

- Propose to the Government of the Republic again to provide the size of the security stock of food grains and nomenclature, and if the Ministry is of the opinion that the state should not have this stock or that the stock should be smaller than established with the Regulation of the Government of November 11, 1996, submit a new proposal to repeal this act.
- Find the depositaries of stock by public procurement, signing contracts with them without the mediation of Estonian Grain Board.
- Provide the obligation of Estonian Grain Board to attend the pre-storage weighing procedure of the grain bought into the security stock.
- Provide that the regular replenishment of grain stock is generally begun in the third storage year following the purchase of grain.
- Provide that the compliance with the preservation requirements of the stock in state reserve has to be inspected periodically (by taking control samples to establish the grain's quality and informing the Ministry of the results) by Agricultural Research Centre, which is in the area of government of the Ministry of Agriculture.
- Implement its own measures to clarify the reasons for transferring 36 tons of rye to AS Kesko Agro at the end of March, 2004 and depending on the results decide the issue of responsibility of the Director of Estonian Grain Board.

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The Minister of Agriculture concurred with most of the SAO's opinions, except for the opinion that the 36 tons of rye given to AS Kesko Agro Eesti for free at the end of March, 2004 should have been regarded as part of state security stock of food grains. The opinion of the Ministry is based on the allegation that the quality of the mentioned rye had been worse than rye in the state security stock should have.

In the opinion of the Minister of Agriculture the Government of the Republic is not ready to make

substantial amendments to the legislation concerning security stock before the decides to amend the Emergency Preparedness Act; the minister is of the opinion that this might take place in the course of this year. The minister is of the opinion that the regulator accepts the waiver of security stock of food grains. That is why no new grain is bought to the stock this year and grain that is held in stock for less than three years is sold, and because of this the minister does not think it is necessary to set the additional requirements arising from the proposals of the SAO for transactions with the grain of state reserve.

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In relation to the transfer of part of the grain held in the storage facilities of state reserve to AS Kesko Agro Eesti, the SAO finds that it is necessary to stress that Estonian Grain Board assigned the mentioned grain to AS Kesko Agro Eesti as grain previously registered in the state reserve by the Commission established by the Minister, i.e. grain the transfer of which needed the authorisation of the Minister (which it did not have). There is no certain evidence on whether the grain samples later submitted for analysis by AS Kesko Agro Eesti were taken from the grain in the state reserve storage facilities, i.e. it is not certain whether the quality of the grain taken from the storage facilities of Rakvere Grain Board complied with the requirements for the grain in state reserve or not.

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The SAO Riigikontroll sent the draft audit report to **Estonian Grain Board** for comments. The **director of the company** did not accept most of the SAO's opinions.

The full text of the opinions of the Minister of Agriculture and the Director of Estonian Grain Board has been appended to the audit report.

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