

Audit report of State Audit Office on the 2004 consolidated government accounts

Audit report No. OSI-2-6/05/114 of August 30, 2005

Opinion of the State Audit Office on the accuracy of the 2004 consolidated annual report of the government and the legality of transactions

The State Audit Office (SAO) has audited the consolidated annual report of the government as at 31 December 2004 that is comprised of a management report, the annual financial statements and supplementary information on legal persons governed by public law, local government authorities and the government sector. The consolidated annual report of the government has been prepared in conformity with the accounting principles generally accepted in Estonia and with the State Budget Act. The entity responsible for the preparation of the consolidated annual report of the public sector is the Minister of Finance. The responsibility of the SAO is to express, based on our audit, an opinion on the fair presentation of the consolidated annual report of the government and the legality of its financial transactions.

The SAO has conducted the audit in compliance with the INTOSAI auditing standards. Those standards require that auditors plan and perform an audit in a manner which enables to obtain reasonable assurance that the financial statements are free of material misstatement or irregularities. In the course of the audit, the SAO examined evidence, on a test basis, supporting the amounts and disclosures in the annual financial report. The audit also included an analysis of the accounting principles used in the preparation of the statements and of the management's accounting estimates, as well as verification of the regularity of financial transactions. The SAO believes that the audit provides a sufficient basis for forming an opinion on the consolidated annual report of the government and the legality of its financial transactions.

- The SAO did not audit the accuracy of the account balances on the balance sheet as of 31 December 2003, presented as part of the report on the implementation of the 2003 state budget. The general accounting policies of the state became effective on 1 January 2004 and brought about significant changes in the accounting principles in place. Due to the introduction of the governmental accounting policies, the beginning balances of the balance sheet accounts as at 1 January 2004 were repeatedly adjusted during 2004. The SAO was not able to apply extensive and time consuming audit procedures for obtaining audit evidence about the accuracy of adjusting entries and therefore the SAO cannot express an opinion on the beginning balances as of 1 January 2004.
- Pursuant to the State Budget Act, the annual report for a ministry or a county government shall be audited by the person responsible for internal audit in that government financial reporting entity, who must then render an opinion on the fair and true presentation of the annual accounts and the regularity of transactions of the given reporting entity. In auditing the 2004 annual report of the government the SAO, for forming its audit opinion, intended to rely on the work performed by the persons responsible for internal audit (hereinafter internal auditors) in the reporting entities. However, in reviewing the activities of ministerial internal auditors, their scope of work and approach proved to be insufficient. The SAO did not have enough resources to form an opinion on the consolidated annual report of the government without relying on the internal auditors' work. The SAO could not start the audit procedures earlier, because changes in accounting principles delayed the preparation of interim reports.
- In auditing the accuracy of the consolidated report, the SAO did not obtain sufficient and appropriate evidence that the accuracy of the data reported by local authorities as of 31 December 2004 had been verified and confirmed by the auditors examining them.
- The certified auditors who audited the annual reports of the companies with state participation, the foundations established by the government and the State Forest Management Centre, which is a government-owned profit-making company, have expressed their audit opinions on the annual financial statements of the above entities, but not on the regularity of their business transactions performed during the accounting period.

- The consolidated annual report of the government does not show state assets (land and buildings) at fair value because asset revaluation has not been completed in material part.

In the light of the above, the SAO cannot render an audit opinion on the consolidated annual report of the government as of 31 December 2004 or the legality of the government's financial transactions performed in 2004.

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