Audit of the accuracy of the annual accounts 2005 and the legality of the transactions of the Ministry of Agriculture for the purpose of assessment of the consolidated annual report 2005 of the state

Audit report No. OSIV-2-6/06/76 of 14 August 2006

Summary

According to the State Budget Act, the NAO must assess the state's consolidated annual report and the legality of transactions in 2005.

The NAO conducted an audit titled 'Audit of the accuracy of the annual accounts 2005 and the legality of the transactions of the Ministry of Agriculture for the purpose of assessment of the consolidated annual report 2005 of the state' for the purpose of assessing those balances of the annual accounts of the Ministry of Agriculture.

The important balances from the point of view of the state's annual report included those related to other claims and advance payments, holding in consolidation group and associated entities, other obligations and received advance payments, short-time loan obligations, targeted financing, received aids, other aids, management and labour costs. From the point of view of the Ministry of Agriculture, based on the risk assessment, the accounting of tangible fixed assets was also important. The NAO audited all these transaction classes. The NAO also audited the loan and leasing claims of the Agricultural Registers and Information Board (hereinafter also referred to as the ARIB).

The NAO did not audit the legality of the procedure for applications for agricultural refunds and payment of refunds.

According to the NAO, the economic transactions included in the sample had been made in compliance with the main legislation regulating them.

The NAO idenfified significant shortcomings in the organisation of accounting of the Agricultural Registers and Information Board. At the end of the audit in the middle of July 2006, the NAO lacked assurance that the balances of the claims and advance payments and loan and leasing claims (total of 1,056,112,117 kroons) recorded in the balance sheet of the ARIB as well as the balances of other obligations and advance payments (625,457,018 kroons) have been accounted accurately as of 31 December 2005. The balances of said transaction classes were estimate as of 31 December 2005, by the time of the end of the year and audit activities these balances had not been compared to the balances of other parties. Due to shortcomings in the organisation of accounting of the ARIB, **the NAO could not give an assessment to the legality of recording the balances of obligations and claims in the 2005 annual accounts of the Ministry of Agriculture. According to the NAO, the rest of the balances of audited transaction classes have been accounted accurately in material respects in the annual report of the Ministry of Agriculture as of 31 December 2005.**

Important observation. Neither the Ministry of Agriculture nor the Ministry of Finance had recorded in its accounting the obligation to pay 714,834,760 kroons to the budget of the European Union. Said payment obligation arose in 2005 when the Commission of the European Communities required Estonia to pay for surplus stock present in Estonia at the time of its accession to the European Union. The NAO is of the opinion that the decision on which Ministry is obliged to record this claim in its accounting has to be adopted by the Government of the Republic.

***

The Minister of Agriculture, upon learning the NAO's decision to not give an assessment to the legality of the obligations and claims recorded in the Ministry's consolidated report, required the ARIB to carry out inventory on said balances retroactively. The results of the inventories were formalised by the end of July. At the end of July and beginning of August, the Ministry assessed the results of the inventories carried out by the ARIB and expressed its opinion that these were reliable; the size of the mistake identified in the course of the inventories does not effect the overall assessment of the legality of balances. Documents submitted to the NAO by the Ministry regarding the organisation of inventories and assessment of their results confirm the Ministry's assessment on the reliability of the inventories' results.

The Minister informed the NAO of the measures that have been and will be implemented to improve the organisation of accounting of the ARIB and to eliminate other shortcomings identified in the course of the audit. The Minister's reply has been appended to the report.

Olav Lüüs
Chief Auditor
Audit Department IV