

# Legality of the economic transactions and organisation of accounts in the National Defence League

Audit report No. OSII-2-1.4/07/9 of 14 March 2007

## Summary

The purpose of the audit was to assess the economic activities of the National Defence League in 2005, focussing on the organisation of accounting, the accuracy and legality of documentation of economic transactions, the relatedness of the economic transactions with the main goals of the activities and the operativeness of the internal control system. In the field of the legality of transactions and protection of state secrets the years 2005 and 2006 were assessed as well.

**Although the organisation of accounting in the National Defence League has been continuously improved, the National Audit Office has identified deficiencies which may lead to serious errors in annual accounts. As for the legality of transactions, serious errors were identified in the activities of the SA Kaitseliidu Kinnisvara foundation. The issues regarding ownership of the registered immovables which are in the possession of the National Defence League have not been solved. The unclear division of roles in the area of government of the National Defence League and rigid relationships also impede cooperation between the Ministry of Defence, the Headquarters of the Defence Forces and the National Defence League in the field of real estate.**

## Main observations

- As of 31 December 2005 the National Defence League used and controlled property worth EEK 92.5 million without any legal title, incl. EEK 70.6 million in the balance sheet of the National Defence League and EEK 21.9 million in the balance sheet of the Ministry of Defence.
- SA Kaitseliidu Kinnisvara received money for the right of superficies of a registered immovable belonging to the National Defence League. A year after the transfer of the money to the foundation it was decided to allocate the money for targeted financing.
- According to the National Audit Office, the transactions between the foundation and the companies related to the chairman of the board of the foundation are in conflict with the Anti-corruption Act and the National Defence League has failed to exercise sufficient and effective supervision over the activities of SA Kaitseliidu Kinnisvara.
- Upon determination and accounting of remuneration mistakes have been made in determination and differentiation of salary grades in the Headquarters of the National Defence League as well as in units.
- The register of state assets does not contain all the state assets used by the National Defence League and some assets have not been accounted in the right value.

## Main recommendations

### To the Minister of Defence

- To ensure the transfer of the state assets, which are subject to transfer to the National Defence League, to the ownership of the National Defence League.
- To analyse the necessity of preservation of all the existing official apartments and the justification of charging rent that is lower than the rent charged in the market.

### To the Head of the General Staff of the National Defence League

- To considerably improve supervision over the activities of the board of SA Kaitseliidu Kinnisvara. To analyse the purposes and effectiveness of the activities of the foundations and the justification of their existence. To conduct an immediate inventory check of the assets of the foundation.
- In cooperation with the Ministry of Defence to ensure the correctness of the data of the register of state assets.

- Upon approval of the Ministry of Defence, to make a decision regarding the decayed buildings and civil engineering works used by the National Defence League and to make an action plan for organisation of their write-off and demolition.

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**The Minister of Defence** agreed with the conclusions and recommendations made in the audit report and confirmed that the cooperation between the Ministry of Defence and the National Defence League has improved and many of the identified deficiencies have thus been or are being eliminated.

In his letter **the Head of the General Staff of the National Defence League** gave explanations regarding various sections of the draft audit report and assured that the deficiencies and errors identified in the course of the audit are being attended to consistently.

The letters of the Minister of Defence and the Head of the General Staff of the National Defence League have been given at the end of the audit report.

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